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OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM IN SOUTH CAROLINA

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

MAY 29, 1987

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OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM IN SOUTH CAROLINA

Friday, May 29, 1987

House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in the Greenville Tech Auditorium, Greenville, South Carolina, Hon. Marcy Kaptur (chairwoman of the subcommittee) presiding.

Present: Representatives Kaptur, Rowland and Patterson.

Also Present: Representative Montgomery and Senator Strom Thurmond, and Hon. William Jennings Bryan Dorn, former chairman of the full Veterans' Affairs Committee.

Miss **Kaptur**. It is a real pleasure to be here in Greenville-Spartanburg—

Mrs. **Patterson**. Union.

OPENING STATEMENT OF CHAIRWOMAN MARCY KAPTUR

Miss **Kaptur**. Greenville Union. At least that was the name of the airport—and appreciate the citizens of this area inviting us to hold this hearing of the Housing and Memorial Affairs Subcommittee of the Veterans' Affairs Committee.

During the last few months, just for your information, our subcommittee has held a number of oversight hearings in Washington, D.C. on the Veterans' Administration Home Loan Guaranty Program.

The different perspectives presented have been most beneficial to us in our preliminary efforts to formulate legislation.

Before proceeding with our legislative agenda, however, we thought it would be appropriate to get additional information by going out to various parts of the country to discuss the operation and management of the program at the local level, where it is most important.

I therefore wish to thank the gentlelady from South Carolina, Mrs. Patterson, for inviting the subcommittee to Greenville for its very first field hearing. Mrs. Patterson has been an outstanding member of our subcommittee, and frankly, one of its most active members.

Even though she has a very busy schedule and a family here, she has attended all our subcommittee meetings and has contributed significantly to the progress we have made in drafting a new home loan guaranty bill.

The subcommittee is also honored by the presence of the chairman of our full committee, G.V. (Sonny) Montgomery, who is known in all circles as the ultimate champion of veterans, and that is not an understatement.

In addition to his strong leadership, he has provided for the continuation of meaningful veterans benefits and services. You should know that Mr. Montgomery is the author of the brand new GI Bill which has proved successful thus far, and we were able to extend it permanently. The President has scheduled this coming Monday to that bill into law to make it a permanent program, and we are indeed honored to have the chairman of the full committee here.

Additionally, we are accompanied by the Honorable Roy Rowland of Georgia, one of the most active members of the subcommittee and full committee, and for your information, he is the only physician in the House of Representatives, and certainly the only one on the Veterans' Affairs Committee.

And we are also so pleased that the former chairman of the House Veterans' Affairs Committee, the Honorable William Jennings Bryan Dorn, who served so capably in that capacity, has chosen to join us this morning.

Finally, let me say we are privileged to be joined by Senator Strom Thurmond, who has a life-long record of support to this Nation's veterans and serves so ably on the Senate Veterans' Affairs Committee.

In essence, this morning's hearing focuses on the operation of the Veterans' Administration Home Loan Guaranty Program in the State of South Carolina. Last year, over 4,000 South Carolina loans were made through this program and guaranteed for a total of over $260 million.

As with conventional and FHA loans, there has been a substantial mortgage foreclosure increase in this VA Home Loan Program throughout the United States, and in fact, last year, the Veterans' Administration paid claims of over 34,000 in 1986, and over 29,000 in 1985.

So, it was an increase of about 18 percent, and we are going around the country trying to determine how we can bring that rate down, and in fact here in South Carolina that rate has been going down, but it is as serious a problem for the program across the country.

We think that increased servicing on such loans for veterans could result in fewer foreclosures, and we plan to discuss this possibility with some of our witnesses this morning.

Before calling our first witness, I would like to recognize for comments this morning the Congresswoman who invited us down here for this hearing, Mrs. Patterson.

[The prepared statement of Chairwoman Marcy Kaptur appears on p. 51.]

OPENING STATEMENT OF HON. ELIZABETH J. PATTERSON

Mrs. PATTERSON. Thank you, Madam Chairwoman. Thank you for holding this hearing for us, also. We are truly fortunate to have someone of Marcy's caliber as chairman of this subcommittee, and it has been a pleasure for me to serve with her and the other members of the subcommittee.

I want to thank the chairman of the full committee, Mr. Montgomery, for joining us. He has become a very special friend of mine in the months I have been serving. Mr. Chairman, as an outstanding advocate of veterans' rights, you have assured that this Nation will stand by its commitments. We are honored to have you here today.

Dr. Rowland, I want to welcome you to South Carolina, although you are not too far from home, since Georgia is home, but we are glad to have you in South Carolina. Your interest and enthusiasm have contributed so much to our subcommittee, and we are pleased to have such an effective colleague join us here for this hearing.

We are also very privileged to have Senator Thurmond with us, a long-time supporter of our Nation's veterans. Senator Thurmond, I would like to express my personal appreciation for the kind of bipartisan cooperation this demonstrates when it comes to such an important issue as the VA Home Loan Program. Thank you for being here.

And to Mr. Dorn, who is so special to many of us in this room, we welcome you. Since you have served as chairman of this full committee, we all know of your commitment and interest in our veterans' programs. Thank you so much for taking time to be here.

Then I look out in the audience, and I have to thank those of you who have taken time to be with us. I know we have the Veterans' Service Officers from Greenville, Spartanburg and Union. We appreciate what you do for our veterans and thank you for being here. And each one of you in this room, thanks for joining us, helping us, to serve our veterans better.

You know, it is the dream, I believe, of every American to own his or her own home, and I believe we must help make that dream possible. That is what this hearing is all about.

As our chairwoman mentioned earlier, in Washington this spring, the Subcommittee on Housing and Memorial Affairs has conducted a number of oversight hearings on the Veterans' Administration Home Loan Guaranty Program. We have heard from a broad cross-section of witnesses who have testified on various aspects of the program. From their different points of view, some very significant concerns have emerged which our subcommittee is addressing.

First and foremost, the VA Loan Guaranty Program is one of the most successful Federal programs ever conceived. Over 12 million veterans have been able to achieve the dream of owning their own home. More than 132,000 of them are here in South Carolina. This has been done at a minimal cost to the taxpayer with immeasurable benefits to our Nation's economy.

Unfortunately, we have recently seen some efforts in Washington to chip away at the VA Home Loan Program. Our subcommittee will not tolerate any action which would undermine the health of this program or the solvency of the loan guaranty revolving fund.

House Resolutions 78 and 79, which I have the privilege to cosponsor, have put the Administration firmly on notice about this, and I would like to commend Chairwoman Kaptur for introducing these resolutions. They were passed unanimously by the House on April 27th and have been referred to the Senate.

Other areas of concern include the increase in foreclosure rates, VA property management practices, and the plight of our homeless veteran population. Our subcommittee is going to be considering legislation to address these issues.

Before we do so, however, we want to hear from people at the grass roots level. All too often, legislation is formulated in isolation, without the benefit of the views of people who actually use and manage the program. That is why we are holding a series of field hearings like this today, as a follow-up to the Washington, D.C. hearings. I am very proud that Greenville and my District have been selected for the first of these field hearings.

Thank you, Madam Chairwoman, and I look forward to participating in the hearing today.

[The prepared statement of Congresswoman Liz Patterson appears on p. 55.]

Miss **Kaptur**. Thank you, Mrs. Patterson.

Now, I am going to call on the Senator here in just a second. I know that he will be able to be with us for a very brief time, because he says he has to go to the graduation of a great-niece, I believe, but he wanted to make sure and be here.

Senator Strom Thurmond, we are so pleased to have you with us this morning.

STATEMENT OF HON. STROM THURMOND, U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Senator **Thurmond**. Thank you very much, Madam Chairwoman.

Chairman Montgomery, Congressman Rowland, Congresswoman Patterson, other distinguished guests and ladies and gentlemen, it is a distinct pleasure to be in South Carolina to hear from these distinguished witnesses involved in the day-to-day operation in the Veterans' Administration Home Loan Guaranty Program.

I am pleased that representatives from the Veterans' Administration, the service organizations, lending institutions, and home building associations will be testifying today. I will look forward to reading their testimony. I will have to leave to go to this graduation she referred to.

I would like to take this opportunity to welcome Congressman Montgomery, Chairman of the House Veterans' Affairs Committee, who is doing such a fine job in that position; Congressman Kaptur, a very able and attractive Member of Congress. We are glad to have you down here. You know, these Yankees come down here and make the best Southerners you ever saw.

Congressman Rowland, a member of the House Veterans' Affairs Committee, he is from our sister State of Georgia. And Congressman Patterson, it is a pleasure to be here in your District with you, and I am very pleased to cooperate in any way I can with you.

Mrs. **Patterson**. Thank you.

Senator **Thurmond**. Chairman Montgomery has long been a strong leader on veterans' issues, and a very able advocate for all veterans. It is a delight to have you here. The people of Mississippi and South Carolina share many of the same thoughts and ideas. It has been a distinct pleasure to work with you over the years.

Most recently, I was pleased to work with Chairman Montgomery on the new GI Bill Continuation Act, which makes the GI Bill permanent. I was pleased to have the opportunity to make the motion to report this bill out of the Armed Services Committee without amendment.

Chairman Montgomery, it is truly an honor to have you and the other members of the House Veterans' Affairs Committee here today, and I am so glad to see all those who are on this program here today. Roy Stone, the most influential member of the American Legion in the United States is chairman of their executive committee. I am glad to see Stedman Sloan here, who is doing such a good job and will be testifying later, and Bernard Black and others. Paul Grier with the DAV. I want to thank Dr. Barton, too, for allowing this hearing to be held here in this building.

Throughout the history of this Nation, men and women of South Carolina have established an outstanding record of service in our country's Armed Forces. As the senior Republican member of the Senate Veterans' Affairs Committee, I am very proud of our South Carolina veterans. Accordingly, Madam Chairwoman, I want to commend you for selecting such an appropriate location for this hearing.

Since its initiation in 1944, the VA Home Loan Program has served the veterans of this country and this State well. Nationwide, millions of veterans have been provided an opportunity for home ownership. In March of this year, the VA Made its 12 millionth guaranteed home loan since commencement of the program.

This represents a total value of $257.4 billion. Here in South Carolina, over 130,000 VA loans have been made since 1944. Of this amount, 4,884 were made in 1986.

As many of you know, the first guarantees were limited to veterans, with the maximum guaranty being $2,000. Today, the program has been expanded to also include active duty service members. In addition, the VA now guarantees to pay the lender 60 percent of the loan, but no more than $27,500, if the borrower defaults.

Earlier this year, there had been a proposal to increase the loan guaranty fee in fiscal year 1988, from 1 percent to 2.5 percent. However, I opposed that increase and was pleased that the fiscal year 1988 budget resolution, approved earlier this year, did not contain an increase.

Madam Chairperson, the VA Home Loan Program has been quite effective in meeting the housing needs of veterans. Despite its effectiveness, I have some concerns over the large number of foreclosed homes in the VA inventory. As of April 30, 1987, there were 21,820 such properties. I think it is important for us to closely examine the program to determine the cause for such a large number, and then to act promptly to address this matter.

Madam Chairwoman, I regret that I cannot remain for the full hearing, as I have had this long-standing commitment to attend this high school commencement across town. I look forward to reviewing the testimony of the distinguished witnesses who are here today, and wish to commend all of you for coming to Greenville, South Carolina to hold this hearing. You couldn't have come to a nicer city or a finer State. Thank you very much.

[The prepared statement of Senator Thurmond appears on p. 64.]

Miss KAPTUR. Thank you, Senator, very much, and we wish you a good time this morning, and we certainly will provide you with the full set of testimonies this morning. It is a pleasure to meet with you. We would like to adopt you as an official Ohioan also.

Senator THURMOND. I would be glad to be adopted by you.

Miss KAPTUR. As you can see, there is great bipartisanship, especially on the Veterans' Affairs Committee.

I would now like to turn to the Honorable and distinguished Chairman of our full Committee, Sonny Montgomery of the great State of Mississippi.

Mr. MONTGOMERY. Thank you, Madam Chairwoman, and I would like to ask permission to submit the full statement of Senator Thurmond in the record, as well as my full statement.

Miss KAPTUR. It will so be done.

STATEMENT OF HON. G.V. (SONNY) MONTGOMERY, CHAIRMAN, FULL COMMITTEE ON VETERANS' AFFAIRS

Mr. MONTGOMERY. Thank you, Madam Chairwoman. Let me say also what a pleasure it is to be in Greenville, South Carolina. I certainly feel right at home today, and look forward to these hearings, and to you, Madam Chairwoman, thank you very much for moving the Subcommittee on Housing and Memorial Affairs into the field. You have to get out of Washington to know what is going on, and thank you for doing this.

We are very pleased to have Elizabeth Patterson on the House Veterans' Affairs Committee. We were concerned that someone else might have taken her away from the Veterans' Affairs Committee, but she wanted to serve on the Veterans' Affairs Committee, and she has been an outstanding member.

You go to the different subcommittee meetings that we have, and we have a lot of them there in Washington, and Liz Patterson is there doing her homework, and doing what she can for the veterans and their dependents. Thank you, Liz, for giving us the opportunity to be in your District.

I would like to thank Dr. Roy Rowland, as has been mentioned, with his expertise of being a practicing medical doctor, the only one in Congress, working in medical care, which is one of the key elements to our veterans. He has just been so helpful, and it is nice for him to come and be with us at the subcommittee hearing.

And of course, there is no person like Senator Strom Thurmond. I have enjoyed, working with him over the years. We both serve on the House and Senate Armed Services Committees, as well as the Veterans' Affairs Committees, so I see a lot of Strom Thurmond, and he was very helpful in the implementation of the new peacetime GI Bill. There are some sitting in this audience today, who we called on for help.

The bill ran into a little trouble in the Senate of the United States, and you were very, very helpful to move this legislation on.

Madam Chairwoman, only a few more comments. He has been introduced, or will be introduced: Bryan Dorn, who is former chairman of the House Veterans' Affairs Committee, who recently was honored at the State Legislature here in South Carolina in Columbia, and his portrait will be hung there in the State Capitol, as I understand it.

And also, Bryan Dorn, I look at your portrait about every other day. When we have the committee hearings, his portrait is also, as former chairman of the House Veterans' Affairs Committee, in our committee hearing room.

I feel close to South Carolina. I was, during the Korean War, here at Fort Jackson, South Carolina as a Company Commander of an Army unit, and I know of the hills and dales and trees and mosquitos and other things here in South Carolina.

Looking in the audience—you always leave somebody out—but as Strom said, E. Roy Stone is really a fine veteran and supportive of veterans' programs. Melford Forester is one of our friends. We see him across the country as we work in veterans' programs.

Let me close by saying that really, without the support of the veterans in South Carolina and other States, and the organizations of the veterans' groups, the posts and the chapters, if you are not strong in South Carolina, we cannot be strong in Washington, D.C.

We have to have you to speak up to your Congressmen/Congresswomen, and also your Senators, and we can get things done. Now, we do not have any problems in South Carolina because this is a strong veteran State, and your members are totally supportive, but we still need strong veterans' organizations in the local areas. It makes our job much easier in Washington.

Thank you very much, Madam Chairwoman.

[The prepared statement of Chairman Montgomery appears on p. 67.]

Miss KAPTUR. Thank you, Mr. Montgomery.

I would like to now recognize Dr. Roy Rowland, a member of the subcommittee, for any comments he may wish to make.

STATEMENT OF HON. J. ROY ROWLAND

Dr. ROWLAND. Thank you very much, and it sure is nice to be almost home here, just across the river, that being Georgia. I just want to express my appreciation to you, this young lady from Ohio, for having this hearing here in South Carolina to give us an opportunity to learn more about what is going on here.

It is so important for us to get out in the field, and you have been real aggressive in doing the things that we need to do to find out what we can do to help the veterans around this country, and I am very appreciative of that.

I just cannot say enough about Sonny Montgomery and the leadership that he has provided to the Committee on Veterans' Affairs. If the veterans have ever had a friend, it is Sonny Montgomery.

The legislation that comes out of the Veterans' Affairs Committee and the House is bipartisan. It always goes through the House with hardly a dissenting vote, and that is because there is such good work done in the committee, and that good work is done because of the leadership we have in that committee.

And what an honor it is to sit next to the former chairman of that full committee, Mr. Dorn, who has become a legend in this own time, truly an outstanding person. I have never had the opportunity to meet him before, but I am so glad to have the opportunity to meet you today.

And what can you say about Senator Thurmond? He is just something else, is he not? I know the people in South Carolina are so pleased about Senator Thurmond.

Let me tell you about Mrs. Patterson. I came to know her, of course, right after she came to the Congress, and she jumped right in and became so active and so aggressive. It is like the chairman said, to have her on this committee is just really outstanding. I know there must be some people that wonder how she can take care of all the things that she needed to take care of in Washington and here at home, too. And I found out today how she does it.

She has got this hearing scheduled here for the veterans this morning. This evening, she is going to be having a party for her 10-year-old daughter. I do not see how she does everything that she does, but she is just really an outstanding person.

You are so fortunate to have her. I am just so pleased to be here, and I am so pleased to see so many people have turned out. I look forward to this testimony. I thank all of you for coming and allowing me to be here.

Miss **Kaptur**. I would now like to recognize Mr. Dorn for any comments you may wish to make. We are so pleased you are here with us today.

Mr. **Dorn**. Thank you so much, Madam Chairwoman.

It is nice of you to come down here in South Carolina and hold this hearing and give our friends an opportunity to be heard. I want to thank Liz, too. You know, we just think she is about the greatest person in the world. I served with her Daddy, too, for a long time. That is one happy thing about it. She is up there now representing all of us.

I want to thank all of you for coming out, and anything that is on your mind, you tell Liz. Madam Chairwoman, that is what the hearing is for. It is not limited solely to the people who are on the program. If you have something, say it. Thank you for coming. Both of you. Thank you.

Miss **Kaptur**. Thank you very much.

Mr. **Dorn**. Sonny, excuse me.

Mr. **Montgomery**. That is all right.

Mr. **Dorn**. I see you more often than anybody up there.

Mr. **Montgomery**. Thank you.

Miss **Kaptur**. Thank you, Mr. Dorn.

I just wanted to say, before we call the first witness, that we are going to three places in the United States for hearings. We are going to Houston, Texas, and we will also be going to Chicago, Illinois, and of course, we are here in South Carolina, and I think it is a real credit to Congresswoman Patterson that she was able to lobby us as well as the chairman of the full committee and the Senator here to bring us to this area.

I think it shows the effectiveness that she has been able to have as a first-term Member of the Congress, and we have over 30 members on our committee, at least.

Mr. **Montgomery**. 34.

Miss Kaptur. 34 members, and we are going to three places in the United States. I also wanted to say that we have with us one of the members, a very important member, of the Veterans' Affairs Committee staff, our chief counsel, and he is a native of South Carolina, Mr. Mack Fleming. Where are you, Mack? Here he is.

Mr. Montgomery. Madam Chairman, he is the best Chief Counsel on the Hill, bar none.

Miss Kaptur. I agree with that. He is the most wonderful man to work with. If this is an example, and Liz is an example, of what South Carolina produces, I like it.

Mack said he did not like to travel. Right. Mr. Chairman?

Mr. Montgomery. He did not like to travel, but we made it.

Miss Kaptur. But he came to South Carolina. We would like to move ahead to our witnesses, and our first witness this morning is Mr. Stedman Sloan, Director of the VA Regional Office in Columbia, and I believe you have some members of your staff you may wish to bring up to the table. It is up to you, Mr. Sloan.

Welcome, Mr. Sloan, I just wanted to say before you get started with your statement there that we thank you for the fine service that you give to the people of this country, as well as all the members of your staff in serving the Veterans' Administration. I think sometimes we fail to recognize the important service you provide, and we understand what you do, and we thank you on behalf of the country and all of the veterans and their families here in the audience.

Mr. Sloan. Thank you.

Miss Kaptur. You may proceed.

STATEMENT OF R. STEDMAN SLOAN, DIRECTOR, VA REGIONAL OFFICE, COLUMBIA, SOUTH CAROLINA

Mr. Sloan. Madam Chairwoman, Chairman Montgomery, Congresswoman Patterson, Congressman Rowland, Mr. Dorn, I am pleased to attend this field hearing with other members of the staff of the Veterans' Administration Regional Office, Columbia, South Carolina to discuss the administration of the Veterans' Administration Home Loan Guaranty Program in South Carolina.

At this point, I would like to introduce to the panel members of my staff who are present today. On my far left is Carl Hawkins, who is the newly-appointed Assistant Director of the Regional Office.

Next to him is Olin Westbrook, our Loan Guaranty Officer, who came to South Carolina from Albuquerque, New Mexico, and on my right is Charles Rivers, who is the Assistant Loan Guaranty Officer.

It is currently estimated that 351,000 veterans reside in South Carolina. Assuming that each veteran is a member of a family of at least three, well over 1 million South Carolinians may potentially be affected by Veterans' Administration programs.

This level of veteran population has remained fairly stable during the last decade, and with continued population shift to the Sun Belt States, I do not anticipate any decline in the number of eligible veterans in South Carolina in the near future.

The VA Home Loan Program in South Carolina provides an important benefit which has permitted thousands of veterans to purchase homes for their families. At the present time, over 61,800 guaranteed loans are outstanding in this State. In many instances, this would not have been possible were it not for the VA Loan Guaranty Program.

As you know, the VA guaranty has a significant impact on the willingness of financial institutions to finance home purchases. In addition, our Loan Guaranty Program has had a significant impact in the mortgage banking, home construction, and real estate sales industries and the overall economic growth of the State of South Carolina.

Currently in South Carolina, approximately 144 lending institutions are approved for VA loan guaranty financing. Also participating in our South Carolina program are 1887 approved home builders.

The Loan Guaranty Division of the Veterans' Administration Regional Office has a staff of 33. This represents an approximate 27-percent reduction in staffing since 1980. As a result of the decrease of the VA maximum interest rate from a high of 17.5 percent in 1981 to its current rate of 10 percent, we have experienced increased workloads as veterans have taken advantage of the lower interest rates to refinance their VA guaranteed mortgages.

Notwithstanding the fact that our staffing has not grown proportionately with the increase in workload, the dedication and hard work of our employees have resulted in our being able to continue to provide satisfactory service to our program participant constituents.

In order to process this increased workload on a reasonably timely basis, it has been necessary to contract out certain work in our loan processing area. This was accomplished with the close cooperation and assistance of our constituents in the mortgage banking industry, who have been highly cooperative and understanding since they are also experiencing high workloads.

The ultimate beneficiary of this cooperation has been the homebuying veteran and his or her family. During fiscal year 1986, more than 4190 loan guaranty applications were processed, with a total of more $261,838,588 in home loan guarantees by the Veterans' Administration in this State.

An important area in our Loan Guaranty Program is our Loan Service and Claim activity. In this area, we provide assistance to veterans, who as a result of financial hardships caused by various factors, find themselves in a position where their ability to sustain their home is threatened.

To prevent a veteran from facing the loss of his or her home, we provide information, guidance and, in some cases, intervention with mortgage lenders to arrive at a solution which will prevent foreclosure.

Notwithstanding this important service, we experienced a foreclosure rate of 0.52 percent during fiscal year 1986, and we project an increase in that foreclosure rate in fiscal year 1987 to 0.57 percent.

When such an event occurs, we acquire the property and institute an aggressive program to sell the home. During fiscal year

1986, we acquired 397 homes and sold 356 at a total sales price of $14,255,051.

During the first 6 months of fiscal year 1987, we have acquired 252 homes and have sold 210, for a total of $8,888,340. At the present time, we have an inventory of 212 acquired properties, which are being or will be offered for sale.

It may be of interest for you to note that we have sold 38 houses in the month of May and acquired 22. Ten of those were cash sales. So, we are maintaining a 25-percent ratio of cash sales, which is the goal. We have also sold more houses than we acquired this month, which is what we are trying to accomplish.

I have emphasized the importance of the VA Loan Guaranty Program to the veteran population in South Carolina. It is important to also mention that our program is available as a benefit to active duty military personnel.

As you know, in South Carolina we have a large military presence with Fort Jackson in Columbia, Shaw Air Force Base in Sumter; Myrtle Beach Air Force Base, Myrtle Beach, South Carolina; Charleston Air Force Base, Charleston Naval Station; Marine Corps Air Station in Beaufort; Marine Corps Recruit Depot in Parris Island; and Fort Gordon in Augusta, Georgia, located in close proximity to South Carolina.

Active duty personnel at these locations have in the past, and will continue in the future, to purchase homes during their assignments in South Carolina through the assistance of the VA Loan Guaranty Program in Columbia.

In summary, the Veterans' Administration Home Loan Guaranty Program continues to be active in South Carolina, providing an important benefit to veterans and their dependents, and active duty military personnel.

In addition, it will continue to have a significant impact on the stability and growth of the home building, mortgage banking and real estate industries in South Carolina. This concludes my remarks. I will be glad to answer any questions you may wish to ask.

Thank you.

[The prepared statement of Mr. Sloan appears on p. 73.]

Miss **Kaptur**. Thank you, Mr. Sloan, for keeping within the time allotted and bringing other members of your staff here with you today.

I wanted you to just clear up one point, if you could, for me. I had a piece of information that was distributed before the hearing that indicated that your foreclosure rate was dropping. I had a figure of fiscal year 1985, as 8.7 percent. You foreclosed on 243 properties. Then it went up in 1986 to 344, and then dropped in 1987. Based on what you just said, is your foreclosure rate increasing then again?

Mr. **Sloan**. This is my experience, yes.

Miss **Kaptur**. What is happening here?

Mr. **Sloan**. Well, the effects of the economy is one. The unemployment situation is another. Our experience has been that the two major factors causing foreclosures are instability economically and instability of the domestic side of a marriage.

This is something I think our society is experiencing. When a veteran qualifies for a loan, both his wife's and his income are needed for that loan. If a divorce occurs, usually the family cannot afford to maintain monthly mortgage payments, or neither one wants the house or cannot individually afford to maintain payments.

So these are the two major factors and these are continuing. As far as we are concerned, notwithstanding the figures that you may have, we anticipate an increase in our foreclosure rate. It is not a great increase, as I have indicated. It is from 0.52 to 0.57. This is our best estimate on the figures that we have available to us.

Miss KAPTUR. When you say "the economy," do you mean people who may have been employed in the textile industry and other industries here in your State?

Mr. SLOAN. That is correct.

Miss KAPTUR. We found in other parts of the country, of course, that divorce generally follows unemployment, and so what happens to people's wages has a great impact on their ability to keep the family together and keep making those housing payments.

I wanted to ask you a question. In the hearings that we held in Washington, the General Accounting Office, which was one of the witnesses that we had, stated that expanding our servicing program could result in fewer foreclosures.

We have received contradictory testimony on that. Some people within the VA say, "Well, our servicing program is already good enough." Could you comment if we were to, in our legislation, strengthen the ability of the VA through staffing and through added authority to provide better servicing? Do you think this would help?

Mr. SLOAN. Well, the primary responsibility, of course, for servicing is with the lender. The VA provides some additional or supplemental servicing. We have been fairly successful in South Carolina in this area. Obviously, the more people that we have to devote to this particular side of our responsibility the better. However, it would be conjecture on my part to say that we can cure the number of defaults that we have by adding additional staffing. In certain circumstances, unless the lender is willing to extend foreberance, regardless of what we may do, we cannot develop an income for a veteran that does not exist. That is why it would be speculative to say that more staffing would solve this type problem.

Miss KAPTUR. At what point do you intervene? After 3 months? When does the Veterans' Administration here in this area become aware of a troubled property?

Mr. SLOAN. When we get notice, 90 days after default. When we receive notice of default from the lender, we try to intervene at that particular point, our requirement is after 3 months' default.

Miss KAPTUR. So, you think that there is nothing beyond what you are doing now that could help, in your opinion, on the servicing side?

Mr. SLOAN. I say it would be speculation. I would not want to guarantee that just increase numbers of employees are going to cure an economic situation that is caused by factors such as divorce and loss of income.

Perhaps forebearance on the part of lending institutions or some alternate type of financing would be more beneficial. This would not be a solution within our control.

Miss KAPTUR. I am going to ask one more question and then open up to the other committee members. Legislation is currently pending before our subcommittee, which would allow for the refinancing of VA loans by veterans who have been transferred, and you went through in your testimony a number of the bases that are close to you here, and the veteran or the family no longer live in the home.

Mr. SLOAN. Yes.

Miss KAPTUR. Now, if we do this, do you believe we should support extending the loan guaranty benefit to military families who remain behind while the service person is located overseas or elsewhere?

Mr. SLOAN. My personal feeling on that is yes. I have spent some time in the Air Force Reserves, and I know the hardships that are experienced by military members who are assigned overseas and their families cannot join them. They need to purchase a permanent residence for their family while they are on a remote assignment. This has been particularly true with the Marines at Parris Island.

We have had some situations of these type. So my personal feeling is it would be very beneficial and provide a needed benefit for those military personnel, who must, by reason of their country's call, go overseas and leave a family behind.

Miss KAPTUR. Thank you very much. Just for my own information, do you or any of the gentlemen at the table know, what is the unemployment rate here in this area?

Mr. SLOAN. It varies from county to county. I think the last I heard was about 6 percent Statewide. South Carolina is not one of those States that has the big problems of the industrial North, but we do have unemployment.

Miss KAPTUR. Thank you very much.

I would like to turn now to Mrs. Patterson.

Mrs. PATTERSON. I would like to thank Mr. Sloan for being with us. We go back a few years in sort of a different role, so I appreciate what you are doing for our veterans, and I also appreciate the men that are with you today.

I am still learning a great deal about this process, so I have some questions that maybe I should know, but—my staff probably knows. Could you tell me about how long it takes to process a veteran's loan application in South Carolina, and has that changed significantly in the last few years?

Mr. SLOAN. Because of the high number of refinancings over the last 18 months, our timeliness, the ability for my office to process these applications on a timely basis, has been strained.

There are several areas of processing. From the time of receipt of an application to our processing, we are issuing commitments on prior approved loans within our time standards. In areas, such as our Construction and Evaluation Section, where we are required to appraise a home and issue a certificate of reasonable value, timely service has sufferred.

We have had timeliness problems in that area. In the area where, after all the processing has been completed and the home loan has been closed, and we must issue a guaranty to the lender, we have had timeliness problems. Before the lender can sell that loan on the secondary market, he must have the guaranty issued by the Veterans' Administration. We are running beyond our timeliness standards in those areas. That is where we have had to contract out some of our reviews in order to bring ourselves more in line with our timeliness standards and what the industry needs as far as their selling their mortgages on the secondary market on a timely basis.

Mrs. PATTERSON. What is the average time?

Mr. SLOAN. On the issuance of guarantees, our time now is about 3 months. Something in that neighborhood.

Mrs. PATTERSON. One of the things that I have heard as a member of this subcommittee is we are real concerned about helping veterans keep their homes that they have purchased through the VA loan program.

I am hearing different proposals, and I wonder if veterans as a group are more or less likely to be able to pay the higher monthly payment, should an adjustable rate mortgage be authorized?

For example, if a monthly payment were to increase by 5 percent over the next several years, what would be the effect on the average veteran buyer?

Mr. SLOAN. That depends on a number of factors. If our underwriting is proper, and we are assured by reason of our underwriting that a veteran is a good risk for the loan, I would not anticipate a 5-percent increase would necessarily cause a significant increase in the foreclosure rate. Much depends on the circumstances in each individual case.

It would be very difficult for me to answer that question. Obviously, any time there is an increase in mortgage payments, it is going to make it tougher. You have got to obtain that money from somewhere.

Mrs. PATTERSON. Thank you, Madam Chairwoman.

Miss KAPTUR. I would like to turn to the chairman of the full committee, Mr. Montgomery.

Mr. MONTGOMERY. Thank you, Madam Chairwoman. Let me thank our fellow employees for the veterans for being here today and for the job you do.

Let me say this: We pass all these laws up there, but if you do not implement them properly and take that extra step and that extra mile to help these veterans and their dependents, then we are not getting much accomplished, and I find in most cases that the Veterans' Administration employees are dedicated.

We are concerned that personnel has been cut back in the Veterans' Administration and especially in the Regional Office. We have been able to protect the medical care in our hospitals and outpatient clinics as far as personnel is concerned, but we are going to try to slow down the reduction of personnel in the Regional Offices. I know you have to shift people around, but bear with us and do the best job you can on that.

Also, we would hope that if you cannot stay the whole time, Mr. Sloan, that one of your representatives will be there to hear what these witnesses say, and then try to follow up on suggestions they might have.

Madam Chairwoman, I am glad to see that they are selling more of these houses now than they are making foreclosures. That helps us in Washington to fight OMB, who says, "You are getting all these houses. You have them on hand. You have got to do something with them. Let us put a user fee on; a 1-percent increase," and that really makes the veterans' loan get out of proportion.

It is not as good then when you keep adding the front-end loading like a 1 percent add-on, or make it 2 percent. We are not going to let that happen, as Strom Thurmond said, but you need to keep your inventory down as best you can. In my opinion, it makes our job easier.

Thank you, Madam Chairwoman.

Miss KAPTUR. Thank you.

Before I call on Dr. Rowland, I was going to ask each of the gentlemen at the table, my final question to you will be, and you can be thinking it, if you could make recommendations to us on major improvements that you would like to see in the Veterans' Administration Home Loan Guaranty Program, what would the nature of those changes be?

Dr. Rowland, do you have questions?

Dr. ROWLAND. Thank you very much, Madam Chairwoman.

Just one question to follow up on the question that this young lady from South Carolina asked. From the time a loan application is made with the VA until closing, what is the average length of time there?

Mr. SLOAN. The processing time on our applications, from the time we receive the application from the mortgage lender until the time we send it back to the mortgage lender, is about 5 days now.

A delay comes after the mortgage lender receives a commitmment until the day of closing, which is a circumstance that the lender controls. Once we receive the completed package, we have a long delay, which I referred to earlier. Before we can issue the guaranty, we have to review the entire package. That is the delay period that we are concerned about at this time.

Dr. ROWLAND. All right. Then you are talking about 3 months and 5 days.

Mr. SLOAN. That is right.

Dr. ROWLAND. For a conventional loan, how long is that? Do you have an idea, or would I have to get that answer from one of the others?

Mr. SLOAN. I think you would have to get that from one of the conventional lenders.

Dr. ROWLAND. What I'm wondering is, is there any difference between the VA and the conventional loans, to your knowledge?

Mr. SLOAN. I do not know. One of the big problems that the industry has had is in one of the steps that must be taken in the processing of a loan application. This is the appraisal process. That has been an area of concern because of the pressure that has been placed on that particular segment of the industry. The fact that there are not that many appraisers around, they are overworked and overburdened. They cannot get the appraisals completed on a timely basis.

Dr. ROWLAND. You anticipated my next question because that was my next question. Are there an adequate number of appraisers? And if there are not an adequate number of appraisers, why were there not an adequate number of appraisers for the VA?

Mr. SLOAN. It is not a question of just the VA. We have an adequate number of appraisers. The problem is that we have been experiencing a heavier workload due to the greater volume of refinancing loans resulting from lower interest rates. However, this is hopefully a temporary situation. We are already seeing a reduction in workload as a result of the increase in the interest rate. You cannot have a large number of appraisers just for the high peak period, because under normal circumstances, they would not make enough money to sustain themselves.

Dr. ROWLAND. Well, then, you do not see any way to deal with that problem, other than it will resolve itself as the number of loans, number of applications decreases?

Mr. SLOAN. That is the way we are anticipating it to be handled, yes.

Dr. ROWLAND. One other question. Do you see a change in the number of points that are charged from the time application is made until it is completed because of this delay in time costing the veterans more money?

Mr. SLOAN. There are some circumstances, yes, where that would exist, particularly if a loan was made just before a change in the interest rate. That is true.

Dr. ROWLAND. Or points?

Mr. SLOAN. Yes, right. The points would be reduced at that particular point in time, but the interest would go up. There is an opportunity for an increase in points if there is a lengthy delay in processing the application, depending on what the market does.

Dr. ROWLAND. Thank you, Madam Chairlady.

Miss KAPTUR. Thank you, Dr. Rowland.

Mr. Sloan, I just want to mention appraisals; one of the things we are looking at, and it has come up at our hearings many times, is a uniform set of standards for appraisals across the country. And the VA is participating with the appraisal societies of the country to try to figure out a voluntary set of uniform standards that can be used to address some serious problems that we have in the appraisal area.

I wanted to ask you a couple of short questions, if I might.

Is there a problem of homeless veterans, which is an issue that came up in our Washington hearings from several of the groups? Is there a problem in that area?

Mr. SLOAN. No. Well, there is a problem of homeless veterans, because any time there is a veteran who has served his country and he does not have shelter, it is a problem, that we want to address.

Now, whether it is a problem that should be addressed by the Loan Guaranty Program or some of our other programs, which include medical care and benefits, by reason of compensation and pension, is a questions that still exists.

My opinion is that in South Carolina we do not have the number of homeless veterans that would require any change in the Home Loan Guaranty Program. We are addressing that with our outreach efforts, with efforts to coordinate all the resources in the communities across the State. I think, if they are properly directed, these can go a long ways toward solving some of these problems without involving the Home Loan Guaranty Program, I know there is some emphasis on perhaps using some of our acquired properties for that purpose.

Miss **Kaptur**. Right. Right.

Mr. **Sloan**. I personally do not think that is the solution.

Miss **Kaptur**. We had all kinds of testimony on that issue. And I think we will provide the latitude to take properties from the inventory, in cooperation with local organizations that may wish to provide transitional housing, in conjunction with some of the medical services that the VA could offer, but if it does not apply to your area, you certainly would not have to use it.

Mr. **Sloan**. Well, our surveys have not indicated that the number of homeless veterans in South Carolina are sufficient to justify that type of program.

Miss **Kaptur**. I think also in the homeless bill that we passed through another committee of Congress, the chairman worked very hard to provide that some of those resources would be used in existing VA facilities.

Mr. **Montgomery**. Madam Chairman—

Miss **Kaptur**. We would be pleased to hear.

Mr. **Montgomery**. Briefly, what we did, there was a large amount of money for the homeless, and we offered an amendment that was accepted that had $25 million go to the Veterans' Administration to work in the area of more domiciliary beds across the country, especially in our big urban areas such as New York, Pennsylvania, out in California, to create more domiciliary beds and to bring the homeless veterans in, and we take care of them.

The problems, Madam Chairman, as I understand, include mental problems and drugs.

Miss **Kaptur**. And alcohol.

Mr. **Montgomery**. Alcohol.

So we must think of these people—they are veterans. We want to get them off the streets, if you can—and maybe this money that we have got for domiciliary beds will open up more beds for them.

Mr. **Sloan**. I would like to give you a personal example that we had in Columbia that shows, I think, the efforts that can be made, aside from the Loan Guaranty Program that we are discussing today.

Directly across from my office is the Salvation Army, which feeds homeless persons for breakfast and supper, and houses them at night. During the day they do not have a place to stay. A veteran who was unemployed, his wife, who was also unemployed, and their small baby, set up housekeeping in my waiting room. Obviously we were concerned. Through the efforts, and efforts of the employees in the office, we were able to locate an employer and we were able to locate a place where they could live.

The wife got a job, and somebody was taking care of the baby. So, their problem was solved by existing programs, without implementing anything new. It it was a personal concern and a human concern that we addressed.

Miss **Kaptur**. Mr. Sloan, I also wanted to ask you what would you think about a proposal to provide almost a piggyback loan to deal with the problem of moving our foreclosed inventory, properties that are substandard or in need of great repair, where we would piggyback a rehab loan onto the regular loan that a veteran would take out? Do you feel you have sufficient authority to do that now?

We found in other parts of the country that many of the properties in the inventory are in terrible condition, and it puts too much of a burden on the veteran, and so forth, to try to fix up and, in fact, the properties are not fixed up.

So what is your reaction to dealing with problems in the inventory that are severely substandard or in need of repair?

Mr. SLOAN. Madam Chairwoman, probably those types of situations exist, again, in the large metropolitan areas. We do not have that type of problem involving a requirement for extensive repairs when we take a property in our inventory. We do make repairs when necessary. And as I have indicated, we are able to turn over the properties, not as fast as we would like, since we would like to get our inventory down to zero. The fact that the property may be in disrepair has not been such a problem that we cannot resolve with the current program.

Miss KAPTUR. We have a real problem in some of the bigger cities where the property just keeps deteriorating, and deteriorating, and losing value. We have to address that in our bill.

Finally, my hard question. Now is your chance.

We are drafting the bill; the ink is still wet. So now is your opportunity to tell us if you could make changes in the program to help the veterans of this country obtain housing and keep it, what would those recommendations be to us?

Mr. SLOAN. That is such an all-reaching question. I must admit I have not given it any thought prior to your asking it.

The major problem that a veteran faces is when his economic circumstances are such that he is going to lose his house. Once that happens, problems pile on problems.

The only thing that I can suggest is some program whereby the Veterans' Administration or some private lending party could intercede in those cases that are meritorious to provide the veteran an opportunity to recover to the point where he could continue to make his payments without foreclosure.

Miss KAPTUR. Some type of greater forbearance?

Mr. SLOAN. That is correct.

Miss KAPTUR. We are considering something like that in our bill.

Mr. Rivers, we would sure like to hear from you.

Mr. RIVERS. There are two areas—I am like Mr. Sloan, I did not come prepared for a question, but there are two areas where there are problems.

One of them is that graduated payment mortgages have a negative amortization because of the down payment requirement. For the first five years of that loan, the principal balance actually increases.

During this recent period of heavy refinancing, many of these homes were ineligible for refinancing simply because values did not escalate at the same rate as their mortgage balance and cost of refinancing.

Perhaps the VA could provide a method to offer refinancing to these people. Although I do not have access to statistics, I am sure they would bear out that there is a high rate of foreclosure on these loans because the rate is above normal interest rates. They are running 12 percent, where the market is 8½ to 10.

So, developing a method of refinancing these homes without calling for additional cost from the veteran would be one alternative. I would not have time to detail a rather elaborate plan, but there is perhaps a method for doing that.

Miss **Kaptur**. Well, if you have any further thoughts, we will leave the record open, and we would welcome your suggestions if you want to go back and think about it.

I think this is the first witness that has brought this problem to our attention. So we would be happy to take a look at that.

Mr. **Rivers**. Well, a second problem that could be addressed would be the assumption of VA loans. We have the greatest feature in the world in that a VA loan is assumable without escalation, which is a very valuable feature. However, we notice in our foreclosures that there are an awful lot of foreclosures by virtue of the assumption. The veteran remains liable in a high percentage of those cases.

In many cases he ends up with a debt that he is unaware of, and there is really no way to protect him. Even if you notify him, and we have procedures for doing that, he ends up with the debt. The funding fee of 1 percent is charged to the original veteran when the loan is originated.

The assumer, in many cases, is a non-veteran, and he is getting the benefit of this veteran's entitlement and eligibility.

Consideration should be given to a funding fee on assumptions so that where we are having our high loss experience, we would be letting those who are creating these losses bear part of the expense. This would tend to offset any increase in the funding fee on guaranteed loans, for which you have already shown concern.

In some way develop a method so it would not be an unusually heavy burden to the mortgage companies. Now they charge a fee for transfer to correct their accounting records and their billing. The cost of collecting this fee would be an expense to them, so they should be given some consideration for this additional handling. It also would develop revenue for the revolving fund.

Miss **Kaptur**. I have to say, Mr. Rivers, we are so happy you came this morning.

These are both excellent suggestions. They take our thinking one step beyond where it was, and you have made a valuable contribution.

You can take my word for it on both of these. We will definitely take a close look at them and see if we cannot incorporate them in our legislation.

We were already worried about the assumption problem with veterans. We had not thought about placing a cost on the one who would be assuming. What an excellent idea.

Mrs. **Patterson**. If he thought of those two without much preparation, what could he come up with?

Miss **Kaptur**. Yes. You should come back with us on the plane.

Mr. **Rivers**. I believe the well just went dry.

Miss **Kaptur**. Thank you very much for that.

Mr. Westbrook?

Mr. WESTBROOK. Well, I believe if we could establish some type of a low-cost insurance program that the veteran can secure with a modest fee. If he goes into default, this fund would be used to carry the loan for approximately 6 months.

Miss KAPTUR. This is a very good group in South Carolina.

Mrs. PATTERSON. I told you so.

Miss KAPTUR. Congresswoman Patterson, you have really produced a fine set of recommendations here through these gentlemen.

In a previous bill that the Congress passed, not in the Veterans' Committee, the question becomes who bears the cost of that forbearance, and in previous bills, which passed the House, but not the Senate, the cost was borne by tacking the additional loan amount onto the end of the loan and extending the life of the loan, and the insurance fund concept has not been one that we have looked at, but we certainly will.

And finally, Mr. Hawkins?

Mr. HAWKINS. I think Mr. Sloan has mentioned the area that I was most concerned with, that is, coming up with a way we could work with lenders that would allow us to be notified earlier and begin working earlier with the veteran. This would give us a greater chance of assisting the veteran to keep his or her home.

Miss KAPTUR. All right, thank you.

And by the way, Mr. Westbrook, on that insurance idea, if you have any suggestions as to how much it would cost or how it would be charged, I hope you will feel free to submit it to us in the record.

Mr. WESTBROOK. Thank you.

Miss KAPTUR. And Mrs. Patterson will definitely get the information to us.

Mr. RIVERS. There was one other item—

Miss KAPTUR. Yes, Mr. Rivers?

Mr. RIVERS. [Continuing.] You may want to consider. Presently, the veteran is not required to buy mortgage insurance because our guaranty serves to guaranty $27,500 of the mortgage to the lender. Nevertheless, we do not experience a real problem here in South Carolina on no specified amount bids where the guaranty is paid, and the property is left with the lender. Throughout the nation that is a problem.

If there could be a method developed where the mortgage company could charge the veteran, the seller or someone for an additional insurance premium to insure additional balance on the mortgage above our $27,500, it would be an expense that would be borne, that would protect the lender.

Areas such as Houston, I believe, where they are having tremendous problems with no specified amount bids, this would help the lenders. There is insurance available because the mortgage companies are buying it now on conventional loans when they are 95 percent loans. It should be a less premium, because they have less risks, since the VA stands on line for the first $27,500.

It would be a secondary type insurance that would cover up to 50 percent of the loan and should require a very modest premium. Someone could develop a premium for that, but with the essence of deductible, which would be the VA's participation. This would encourage lenders to maintain an interest in our program. I believe if they continue to suffer the losses they have in other areas, their interest will diminish, and the program would suffer from lack of participation from the money source.

Miss **Kaptur**. Could I ask you to do this, Mr. Rivers, Mr. Westbrook, Mr. Sloan, Mr. Hawkins, could you put all of these ideas in a single letter to us, and you could just say, "Suggestions you may wish to further investigate," so it does not have to be an official VA recommendation, but just based on your experience.

Those are some of the most creative suggestions that we have received. So you have not wasted your time in coming here at all, and we certainly have not. We want to thank you very, very much. You were just excellent.

Mrs. **Patterson**. There is just one point.

Miss **Kaptur**. Yes. Gentlemen, excuse me.

Mrs. **Patterson**. As you leave, I would just like to thank all of you for coming and being with us, but I would also like to thank you for what you do, and I think, Mr. Sloan, in your example of the family that took up housekeeping in your office, I think that shows that our veterans know where to go if they need help, and I think that is an excellent testimonial.

Miss **Kaptur**. Thank you very much. We appreciate your going over a little bit in that vein but it as extremely interesting and valuable to us.

We would like to call the second panel. Ms. Linda Whiteman, Alliance Mortgage Company, representing the Mortgage Bankers' Association of Greater Greenville, accompanied by Carolyn Reeves; Mr. James R. Williams, Assistant Vice-President of First Federal of South Carolina, Greenville, South Carolina; and Mr. T.C. Gosnell, III, Vice-President of SCN Mortgage Corporation of Spartanburg, South Carolina.

We welcome you to this morning's hearing, and we thank you very much for waiting. We are anxious to hear your testimony, and during the question period, or during your testimony, if you wish to comment on anything that was said earlier, we would certainly welcome that as well.

We will proceed in the order in which you are listed on the agenda starting with Ms. Whiteman. Just pull the mike over close to yourself so everyone in the audience can hear, please.

STATEMENT OF LINDA WHITEMAN, ALLIANCE MORTGAGE COMPANY, MBA OF GREATER GREENVILLE, SOUTH CAROLINA

Ms. **Whiteman**. Madam Chairwoman, and distinguished members of the subcommittee, my name is Linda Whiteman. I am the Vice-President of Alliance Mortgage Company. I am also President of the Mortgage Bankers Association of Greater Greenville. It is a pleasure to appear with you today. I am personally humbled by the distinguished group that I am in the presence of today, personally.

The VA Home Loan Guaranty Program has worked well in helping millions of veterans to become homeowners. Congress, the VA, and the mortgage industry have worked together over the years to address concerns that have arisen in the course of delivering the home loan entitlement program to veterans; however, as economic conditions change the Federal budget restraints increase, program management techniques ned to be improved in order to preserve the objectives of the program.

Obviously, I cannot deliver the entire 18 page statement that I have prepared. So, I will attempt to summarize.

Miss **Kaptur**. Without objection we put it in the record.

Ms. **Whiteman**. Okay.

First of all, I would like to address the issue that has already been brought up about the adjustable rate mortgage. We urge that the VA be authorized to include ARMS in the Home Loan Guaranty Program.

ARMs have been accepted by borrowers in the conventional mortgage market, and FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of the borrowers.

Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to a lower interest rate that the lenders can offer when the program bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

With regard to the no-bid formula, I will briefly address that. We encourage Congress and the VA to take another look at the statutory formula for determining no-bids and to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress with a view toward significantly lowering the number of no-bid cases in such areas.

If Congress chooses to extend the present formula, that extension should not be permanent and should be for no more than one additional year to continue an assessment of the no-bid formula, and I am impressed myself with the ideas that have been presented here as ways to handle that sort of thing.

With regard to underwriting on assumptions, we recommend that underwriting of all purchasers assuming VA loans be mandatory for all assumptions that occur during the first year of the mortgage. We believe that this action is necessary to address abuses that have been uncovered involving assumptions that occur shortly after the loan closing.

However, we do not believe that it is appropriate to require underwriting in all assumption transactions. We are unaware of any documented abuses that would justify the delay and expense associated with an underwriting review of all loans regardless of age.

Regarding the extension of the funding fee, the 1 percent funding fee expires at the end of the fiscal year 1987. If the temporary funding fee is extended, it should not be made permanent.

A three-year extension would give Congress the opportunity to review the Home Loan Guaranty Program and decide whether it wishes to continue the program as an entitlement program.

The VA Home Loan Guaranty Program has always been an entitlement program. When Congress created the VA Home Loan Guaranty Program in 1944, to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be supported by user fees.

The program was a recognition by a grateful nation that the men and women who had forgone civilian life to defend the vital interest of the country should be aided in achieving homeownership. The program was partial payment for services performed.

With regard to an increase in the maximum guaranty, we support an increase in the maximum guaranty. The proposal included in S. 9 would increase the maximum amount from $27,500 to $36,000. Such an increase would bring the relationship between the level of the guaranty amount and the ever-increasing cost of new and existing housing closer to historical ratios. The VA guaranty has not been raised since 1980.

With regard to refinancing of VA loans by transferred veterans, currently a veteran has to make certain residency requirements in order to refinance a high-interest rate VA-guaranteed loan with the VA. However, if the residency requirement is not met, the veteran is not precluded from keeping the high-interest rate loan, even if the property is being rented.

Given that the transferred veteran is not blocked from renting the property under the original loan, it seems reasonable to permit that same veteran to refinance the loan without meeting the residency requirements.

With regard to a free VA interest rate, we support legislation that would free VA loans from any interest rate controls, including the regulation of either interest rates or discount points. Under current law, the maximum interest rates on VA loans are set by the VA Administrator. These rates, however, historically have not accurately reflected the market rate for mortgages. If the maximum VA interest rate is too low, the home sellers often must pay substantial discount points to raise the yield on the mortgage set by the forces of supply and demand.

Analysis suggests that a major portion of these discount points are effectively paid by the buyer in the form of higher prices for the property.

Since 1983, the interest rate on FHA-insured mortgage loans have been determined by the market. The VA Home Loan Guaranty Program is put at a disadvantage if the VA does not track the market closely.

Sellers may refuse VA financing as an alternative because of the spectre of their having to pay substantial discount points if the VA sets its rate too low. Furthermore, to take advantage of the GNMA MBS program, lenders may have to place VA and FHA loans in separate pools if their interest rates are more than 1 percent apart.

Miss KAPTUR. Excuse me, Ms. Whiteman. I do not know if you notice that the time ran out there—

Ms. WHITEMAN. Yes.

Miss KAPTUR. —a little bit earlier. If you could try to summarize.

Ms. WHITEMAN. Yes, Thank you. That is the last item on the issues that I was going to present.

[The prepared statement of Ms. Whiteman appears on p. 75.]

Miss KAPTUR. All right. And do I take it that Ms. Reeves will not be testifying?

Ms. WHITEMAN. That is correct.

Miss KAPTUR. All right.

Thank you very much for trying to summarize the statement. I, as well as the members of the committee, did not have a full set of your comments. So, I hope that you will make those available to the record.

Ms. WHITEMAN. Those have been.

Miss KAPTUR. Okay. Very good.

Mr. Williams, welcome. Glad to have you.

STATEMENT OF JAMES R. WILLIAMS, ASSISTANT VICE-PRESIDENT OF FIRST FEDERAL OF SOUTH CAROLINA, GREENVILLE, SOUTH CAROLINA

Mr. WILLIAMS. I am going to request permission to pass since Ms. Whiteman is President of our local Mortgage Bankers Association, and her comments and views will be the same as mine. She is representative of the lending industry in the Greenville area.

Miss KAPTUR. All right. Thank you.

Mr. WILLIAMS. I will glad to answer any questions, if I may help.

Miss KAPTUR. All right.

And Mr. Gosnell?

STATEMENT OF T.C. GOSNELL, III, SCN MORTGAGE CORPORATION

Mr. GOSNELL. Thank you very much, Madam Chairperson, members of the subcommittee, and the distinguished guests.

The Veterans' Administration Home Loan Guaranty Program represents a long-standing commitment to the value of the individual and to the ideals of homeownership. The commitment has adapted well to varying political and economic conditions over the past four decades, and it faces a number of challenges over the next few years.

I would like to start out by saying that we are definitely fortunate in South Carolina to be served by dedicated and knowledgeable staff of the VA Regional Office in Columbia. As you have probably noticed already this morning, there are some very dedicated people who work there, and that extends beyond those you have seen.

I have utilized, personally, the services and expertise of these individuals over the last 16 years, and I have found them to be both knowledgeable in thier areas of responsibility and concerned with the needs of veterans, and I think they are to be commended for this dedication.

As was stated earlier, the major difficulties we have experienced with the Home Loan Program in South Carolina have related to time delays in the processing of home loans. Now, as I can tell it, these problems have stemmed from two major sources. The first, as was mentioned earlier, was an unprecedented demand for home loans during the last 18 months due to lower interest rates.

The other, quite frankly, is a lock of payroll authority in the VA regional Office to add temporary personnel at peak activity levels when needed. Now, I am very well aware that this is a budgetary consideration.

However, I would like to point out that at one time during 1986, the time frame required to receive a property valuation was 90 to 120 days.

Now, fortunately these delays occurred during a time when interest rates were generally declining, and this benefited most veterans, but not by design. Delays during periods of rising interest rates, however, can cause marginal loans to be rejected and qualified applicants to be discouraged from obtaining a loan.

It seems reasonable that the Regional Offices could be granted the latitude to determine if additional personnel are required during peak activity periods only. If this is not considered to be appropriate, then consideration should be given to a revision of the present system utilized to process the home loan applications.

Several recent developments have also affected the program. Most noticeable in my experience, has been the national trend toward the no-bid policy since its conception The resulting increase risk to lenders and investors adversely affects the marketability of partial eligibility loans and, therefore, adversely affects many veterans who are in that position.

The immediate impact of this policy in my organization is evidence by the fact that we are now unable, without special authorization, to take a loan from a veteran who has partial eligibility.

This is detrimental to the veteran in that it limits his ability to obtain a home loan he is technically qualified to receive. I am well aware that this policy also has been undertaken as a budgetary consideration, but I would hope that the loss of benefit to veteran scan be considered in addition to the financial benefits to VA of this policy.

More recently there have been several changes to the credit underwriting standards that have resulted in more stringent guidelines for loan approval. I feel these changes are to be applauded for they directly address the major source of recent foreclosure problems. The implementation of these requirements does not damage the basic benefit of the program to the veteran, namely his ability to obtain safe, sound, and sanitary housing for himself and his family under relatively favorable terms if he is qualified for the loan.

Needless to say, a veteran who is approved for a home loan that he does not truly qualify for is provided a disservice because the ultimate loser in a foreclosure action is the homeowner.

I would hope that the long-term benefits of these changes in the underwriting standards can be considered to be an effective alternative to the no-bid policy.

My final observations relate to proposed changes to the program. The first as has been mentioned very often here today, is the proposed increase in the Va funding fee from 1 percent of the loan amount to 2 percent or more. This fee is paid by the veteran is almost every instance, and therefore, any increase in this fee would represent a penalty and a deterrent to the veteran for using an entitlement program which was designed for his benefit, and therefore, I feel it should be strongly opposed. And I noticed that. I will make this very brief.

Miss KAPTUR. Now that you are into the answers, you may proceed.

Mr. GOSNELL. Okay. The second relates to a proposed increase in the loan eligibility from 27,500. Since the eligibility available to the veteran directly affects the marketability of these loans in the secondary market, I would strongly support an increase in the eligibility in this area to at least 33,750 and probably on a nationwide basis to $36,000.

If the loans are underwritten in accordance with current standards, any risk in foreclosure loses would probably be minimal.

Finally, I would like to say that I appreciate your concern in this area, and you willingness to hold this hearing in Greenville indicates your respect and your response to the veterans who have earned our support.

Thank you.

[The prepared statement of Mr. Gosnell appears on p. 99.]

Miss KAPTUR. We have heard some suggestions that we should increase the guaranteed amount to another fixed level from $27,500. Some have recommended $30,000. Some have recommended $33,000.

One of the proposals we are seriously considering would not set a ceiling at any particular level, but would rather provide a guarantee amount as a certain percentage of the total loan value. Essentially that would make sure that the appraisals used in the ultimate decision would be more carefully thought through.

So the committee is looking at some rather major changes in the way we view the insurable, the guarantee amount, and we will certainly be looking to your associations for comments on that in the future. It would be a substantial change, and it would not relate to any fixed level because there is no magic number that you can go to that makes sense. We want to make sure that the appraisal is done properly, the underwriting is done properly, and the veteran is served in the end.

We think there are certain incentives we can provide in the way we design this part of the bill, that would make that happen in due course. So we expect some major changes there.

May I just ask you, what do you think it would take to reduce the foreclosure rate that you see here in South Carolina? We had some testimony a little bit earlier that it is going up due to unemployment and family separation.

I am just wondering if you have any additional comments that you would like to make, and if you could pull the microphone to you, we would appreciate that.

Ms. WHITEMAN. The only thought that I had in addition to what has already been said is that with a period of appreciation in values and then contrarily a depreciation in values or a leveling out of values rather, I wonder if perhaps a veteran in today's market has less incentive to remain around and make an attempt to sell that home because it has not appreciated to such a point. That is not a suggestion. This is just an observation that I would feel would have some influence on it.

Miss KAPTUR. Do any other members of the committee have questions, Mr. Chairman?

Mr. MONTGOMERY. Go ahead, Liz. You go.

Miss KAPTUR. Mrs. Patterson?

Mrs. **Patterson**. First let me thank our distinguished panel. I really appreciate you being here, especially having someone from Spartanburg with us.

As lenders, I would just like to know, and I think Mr. Gosnell, you sort of alluded to this, but what kind of cooperation do you receive from VA, and if you are satisfied with the way the program operates here in South Carolina? Also, if you have any suggestions in how we can improve it?

Mr. **Williams**. Mrs. Patterson, let me comment on that since I probably have been dealing with the Veterans' Administration Loan Guaranty program longer than anyone in this room. I started back in the early fifties when they were housed in a surplus prefab hospital barracks out at Fort Jackson, and air conditioning was window fans.

Mr. **Montgomery**. Still is.

Mr. **Williams**. I was going to say that the accommodations have improved somewhat, but not greatly since those days, but in spite of that and in spite of the personnel cut, I would like to comment on the job that the local loan guaranty administration is doing.

They have an interest in the lender, and they are processing and looking at loans, keeping the veterans' interest in mind. They have done an admiral job with the volume of work they have.

Mrs. **Patterson**. Would you have any suggestions on methods we use here in South Carolina that we might look into for other areas of the country?

Mr. **Williams**. No, I think the word "dedicated" was mentioned a while ago, and I think that is it. I think the people believe in the program. They help us. They have appeared at seminars. They appeared at programs trying to sell the VA program, and I think that is the key answer.

Miss **Kaptur**. Would the gentlelady yield just for a moment?

Mrs. **Patterson**. Yes.

Miss **Kaptur**. I wanted to ask Mr. Williams if the Veterans' Administration were to provide some type of temporary mortgage assistance program to help veterans who face foreclosure through no fault of their own, what do you think the results of such an effort might be?

Mr. **Williams**. I think it would be very good if something could be done along that line. I do not know the answer, or I cannot suggest a program, but I feel like as someone mentioned earlier, when the veteran gets in trouble, he misses one payment, the problems mount. He has got two payments to make, then he has got three, and he needs some kind of temporary time to--

Miss **Kaptur**. Could you make an estimate of the veterans that you have dealt with, what the cost, an average cost, might be for something--the gentleman from the VA was thinking in a 6-month period.

Mr. **Williams**. I have not really given it that much thought, but I do know that I have talked to veterans who would get 1 month behind that would accumulate that payment, but then they were 2 months behind, and the lender would not accept one payment.

He would get the second month's payment, he was three payments behind. Once they reach that stage it is just almost impossible for them to pull themselves out of that problem. If there was some way that that could be addressed—and I do not have the answer to it—I think it would greatly help as far as foreclosures.

Miss KAPTUR. If you could project a 3-month assistance program, a 6 month, a 9 month, 1 year, a 2 year, where would you fall out in that range?

Mr. WILLIAMS. I think I would fall out somewhere between 3 months and 6 months. I think that is the critical time on a VA loan that goes into default.

Mr. GOSNELL. Madam Chairperson, I Might make two observations from what has just been said.

First, I feel that probably some risk analysis of the statistical occurrence of these defaults and the methods of cure would have to be made in order to establish a reasonable fee figure for the VA.

I do not think that is something someone could come up with off the top of their head, but one thing that I did hear stated earlier that I think would also help, the VA is now being notified when the veteran is 90 days past due.

Miss KAPTUR. Right.

Mr. GOSNELL. At that point in time, the problem has reached such a level if it is not incurable, it is getting very close to that point.

I did think that the suggestion that some earlier notification to the Veterans' Administration and their ability to contact the veteran and make him aware of his options, and to let him know of his liabilities involved in foreclosure might be helpful.

Miss KAPTUR. This goes to the heart of the servicing issue as we view it.

Mr. GOSNELL. Exactly.

Miss KAPTUR. And how we streamline that process more, and we have a few ideas, but really appreciate your comments there because it is something we have given quite a bit of thought to.

You know, when you talked about a statistical analysis—I just have to put this on the record because it surprised me.

When I first became Chair of this subcommittee I said well I have to learn everything there is to learn about 40-plus years of veterans' housing.

I thought, "Where do you go?" You go to the original Act. You go to the legislative history, and then I thought, "Then you go to the Library of Congress and you get every single dissertation that has ever been written on this subject," and there must be just volumes because it is such a huge program.

We finance 12 million families.

Do you know that the last Ph.D. dissertation written on the VA Housing program was written back in 1952.

We know nothing about the history of this program as a country.

I was shocked. I could not believe that there was not any kind of analysis with recommendations, or suggestions for change.

So what is said here this morning is very important to us because when you talk about risk analysis, believe me, there is not a whole lot of reflection on this program.

We intend to focus some attention there.

Mrs. Patterson?

Mrs. PATTERSON. Madam Chairman, that would be all the questions I have at this time.

Miss **Kaptur**. Doctor Rowland?

Dr. **Rowland**. You heard earlier that there might be some consideration given to mortgage insurance. Do you have any idea how much that might cost to do that? It would certainly be to your advantage if that was possible.

Have you thought about that any?

Ms. **Whiteman**. I had not given thought to that earlier.

I am giving thought to that now because I consider that to be a very good suggestion to have additional private mortgage insurance on top of the VA.

The only thing we would have to be careful of is if we have a continuation of the funding fee or an increase in the funding fee.

We do not want to get to a point where it is prohibitive to a veteran to provide both, but I think it is an excellent idea.

As far as cost, I cannot tell you what that would be because it would vary, of course, we—the degree of entitlement that we had, or guarantee, that we had on the loan coupled with that, and the cost also, you know, we know what the costs are on a private mortgage insurance conventional loan, but it should be less if you had additional coverage from the VA.

So I would not be able to help with any—

Dr. **Rowland**. We would appreciate it if you would give some thought to that. I think it would be in your interest if something like that could be worked up.

You would have to be careful not to go too far. You know the Administration tried to raise the fee to 2½ percent, and so far we have been able to oppose that.

They try to do that every year. It looks like they would get the message after while that we are not going to let it go to 2½ percent. Anyway, in that respect, let me ask one other question, if I may. I know we have to move along.

I had asked the question earlier about how long it takes from time of application until closing with the VA loan, and then I asked the question about conventional loans, and they were not able to answer that.

Can you tell me how long it takes for a conventional loan from time of application to closing approximately?

Mr. **Gosnell**. Well, the conventional loans generally right now, depending on the appraisal time, which can vary depending on workload, generally run anywhere between 3½ and 5 weeks in most cases unless someone can give me an example of a shorter time that they are aware of.

Dr. **Rowland**. Why is there a difference in the VA and the conventional loan?

Mr. **Gosnell**. Part of that answer lies in the fact that the VA appraisal process is twofold. The assignment is made of the case number and is given to the appraiser. He is then required to complete his work and forwards it to VA for review by the VA in the regional office.

That review is completed, and then he appraisal is forwarded to the lender. Therefore, there is a two-step process instead of one-step process for the appraisal to be made.

Dr. **Rowland**. I think it would be helpful if we could address that area to to expedite loans because points may change and the veterans may find to pay considerably more since there is that length of time.

Miss KAPTUR. That is a good suggestion, Dr. Rowland.

Thank you.

Mr. Chairman, did you have any further questions?

Mr. MONTGOMERY. I will be very brief, Madam Chairman. Most of us on this subcommittee come out of private enterprise, and we appreciate you taking the time as mortgage bankers, as lenders, for being here today and preparing yourselves very well. I am impressed.

Let me say, I believe your question was pertaining to shortage of personnel. I could be wrong. Mr. Sloan could talk about that afterwards.

I believe we have given the authority to the Veterans' Administration to pay overtime and also to hire extra people when they have this load of loans from the veterans, and that should not create that many problems.

It is just getting them in and training them and getting them to move out. On the revolving fund and user fee it was mentioned by Mr. Fleming and also brought up by Roy Rowland that we could look at the user fee to see if part of it could buy back some type of insurance for the veteran instead of putting it in the revolving fund.

We could maybe work, Madam Chairman, on insurance for the veteran when he or she does get behind. It is something to look into, which I am sure you will, but as has been stated here, I think it is pretty safe to say I would not worry about increasing the 1 percent to 2½ percent on the user fee. It is not going to happen.

Thank you.

Miss KAPTUR. Thank you, Mr. Chairman.

Do any of the panelists have further comments? Anything that you would like to say?

[No response.]

Miss KAPTUR. I want to thank you all for taking time to be with us today, and we look forward to your full statements being made a part of the record, and if you think of something after you leave that you should have said, please submit it to us in writing through Mrs. Patterson's office, and it will be made a part of the official record.

Thank you so very much.

Miss KAPTUR. I would like to call panel 3, Mr. William W. Giles, Executive Officer of the Greenville Homebuilders; Mr. J.B. Johnson, President, Homebuilders of Spartanburg; Mr. Paul Pack, National Director and Past President, Homebuilders of Charleston/Berkley Counties; and Mr. Robert Wilson, President of Greenville Board of Realtors.

These gentlemen have sat very patiently, and we appreciate your waiting and for being with us this morning. We will proceed in order as the witness list identifies Mr. William W. Giles from the Greenville Homebuilders.

Welcome.

Mr. GILES. Thank you, Madam Chairman.

I would like to turn it over to Mr. Johnson, who is President of our local association in Spartanburg, and start off with our testimony as a joint statement, which you should all have copies of.

We were late in getting them to you because we had to go over them first. I would like to turn it over to Mr. Johnson first and then as he goes through the statement, then he will turn it back to me, then I will sum it up.

Miss KAPTUR. Very good. Thank you.

Miss KAPTUR. Mr. Johnson?

STATEMENT OF J. B. JOHNSON, PRESIDENT, HOMEBUILDERS OF SPARTANBURG

Mr. JOHNSON. Thank you so much.

We would like to thank the entire panel and especially Mrs. Patterson for holding this hearing today and on behalf of the homebuilding industry in South Carolina, we hope some very good things might come out of it.

Of course, we all agree that America needs a strong housing industry, and, of course, the VA program can help to provide veterans with the ability to acquire housing.

Without the VA program, thousands of veterans would not be able to acquire housing. The Greenville/Spartanburg area is, of course, not nearly as big in the VA program as some of the places that have the military bases such as down in the low country, Charleston, Columbia, Myrtle Beach, and so forth, but the VA program nationwide and statewide is a very valuable program, and we need to aid it in any way that we can.

Since the New Deal housing has become the industry which has helped the Americans to acquire wealth in building equity by appreciating housing, which has helped them to gain wealth in our industry.

Since the beginning of the VA program, many changes have taken place in the way housing industry is delivered and sales to the public and construction costs have inflated rapidly since the 1960s when the average priced house was somewhat comparable to the economy automobile today.

Nationally, the average price of a house back in 1972 was $27,000 and, of course, that has increased through the years.

In 1977, I believe it was $48,800.

In 1982, the average increased to $69,300, and then, of course, in 1987, approximately $82,000. And, of course, through the builders' use of modern technology, the cost of the American home is still attainable to the veterans through the Veterans' Administration.

However, the Veterans' Administration needs to examine the VA program. Much of it has already been discussed here today, but the different ways that we can help the veteran obtain his green today.

The Loan Guaranty Program, which has already been touched on, should be increased from $27,500 to somewhere in the vicinity of $35,000 to $36,000.

The user's fee, of course, has also been discussed here today, and we do not need to take up too much time with that since it has already been brought out, but we do need to hold those fees down as much as possible because that is certainly prohibiting—or would prohibit many of the veterans to be able to obtain housing.

STATEMENT OF WILLIAM W. GILES, EXECUTIVE OFFICER, GREENVILLE HOMEBUILDERS

Mr. GILES. This time what I would like to go over is the manufactured housing. It is further in the statement. I think it is page 8.

The fact of user's fees, you were speaking of foreclosure rates earlier, and one of the reasons for foreclosure rates is high upfront costs that are later financed in the cost of the house.

You heard about the negative amortization loans, or the ARMS that the lenders—was 2having problems on earlier, where the house had not appreciated with the rate the debt had increased for the first five years.

With that, if you add user fees to it and the VA still keeps the 100 percent financing options that they have had for years, which has made it quite attractive, and it has made the veteran able to have a new home or an existing home in our market, the long-term repercussion is, that the debt gets financed, and that is what goes back where you run into your foreclosure problem.

Earlier when adjustable rate mortgages came on the market in the late seventies, we learned how to use adjustable rate mortgages.

Congress later passed guidelines in the banking industry to regulate the use of ARMS. If you look at adding user fees, I think the long-term aspects of it, especially when we speak of manufactured housing or mobile homes, what you are going to end up seeing is you do not have a down payment on those houses, since they are not an appreciating asset, what you are going to end up having is greater foreclosures in the long run.

If the mobile home, or manufactured housing, was built to the same standards of a single-family house or an existing house today, you would have an appreciating asset. If the industry went to the same standards a new home conforms to when it is built, the minimum property standards, then you would not have the problems of foreclosure. I think adding a down payment to the mobile homes would be in order.

I see the red light come on.

Miss KAPTUR. Please proceed. There are two witnesses, so we will allow it. This is getting interesting, since we have not heard anything this morning on the manufactured housing issue.

Mr. GILES. There are some—if you go through and thumb through our information sheet, this was helped prepared by the National Association of Homebuilders, our affiliate association in Washington, who works with you whenever you need information.

In Greenville, and in South Carolina, we are becoming more and more cost prohibited for single-family housing simply because we are not able, as Mr. Johnson pointed out earlier, to provide single-family housing that is obtainable to veterans, due to the cost prohibition. Mobile homes and manufactured housing has now been the route for some of them for shelter.

The problem with the whole manufactured housing or mobile home industry is that mobile homes do not appreciate. The single-family appreciates and creates wealth inside your local economy. Since it is an appreciating asset, it gets on the tax roles early in the game, and supports the local government.

When it gets on, it supports the local economy. It supports the growth of the local economy. The people share in the wealth of the economy due to that appreciating asset.

I think with the mobile homes if you could put a down payment on a mobile home in the very beginning to where the VA would not have as great an exposure, thereby reducing the number of units in foreclosure, then the long-term aspects—the mobile home.

With your mobile homes, you have the long-term problem when it does not appreciate, you have got this large debt for 30 years, how do you get out from under it?

Miss KAPTUR. Mr. Giles, might I just intercede and say, how would a down payment insure that it would be an appreciating asset? I do not quite understand the connection.

Mr. GILES. If you had a down payment that was reasonable, 25 percent, 10 percent, 15 percent, something greater than 10 percent, the veterans have got something more out there on the house—I am trying to think of a better way to express it to you, other than—the mobile home in the first two to three years is like a new car.

Miss KAPTUR. Right.

Mr. GILES. It goes down in value instantly. And once it starts declining in value—

Miss KAPTUR. I guess that is my point. If the value is a depreciating asset, then what difference does the down payment make?

Mr. GILES. The down payment would lessen the risk, especially with your guarantee amount. You are guaranteeing a percentage of that amount of that mobile home at 100 percent. If there was a down payment, the guarantee would be less, your risk would be less as it went down.

Now, at a certain point the mobile home is going to keep up with the rate of inflation, once it has depreciated to some point. So from that aspect, I believe if you looked at the mobile home seriously and required a down payment or made them conform to the same single-family standards that a house does, then you would have an appreciating asset, and that might be the solution to it.

Increase the mobile home underwriting guidelines like FHA has for minimum single-family houses. Then you would have the mobile home industry building under the same guidelines as to what the single-family home industry does in South Carolina and other States.

In conclusion, I would like to sum up what the building industry finds in our State. In the areas of the military bases, the VA Program is probably one of the most important programs because the majoring of the housing starts in Columbia, Charleston, Myrtle Beach and Sumter. The new homes are financed through the VA Program. Without it a number of veterans and military personnel could not acquire a home in South Carolina. It is probably the most important.

In the upstate area of South Carolina, without a military base and with a good source of conventional funds, the VA Program is only used by veterans that are located up here or military people that are located up here, and for those who have served in World War II and the Korean War and the Vietnam War you find that—as to the 100 percent guaranty that they can get into their new house.

In the long term the VA Program will probably not be used, in the upstate area of South Carolina for a number of years significantly unless a military base was to come back or we saw a lot of retiree people coming up that were veterans.

The program in South Carolina from the single-family building, building as a VA builder, it works very good in relationship to other federal housing programs. With the FHA we have some tremendous problems, with the Farmers' Home Administration; with the FHA Home Program, we have problems.

But the VA Home Program in our State, I have yet to hear any of the builders complain that utilize it because of the good service they get out of the people in Columbia and have for a long period of time.

That is all that I have. I will be glad to receive questions.

Miss KAPTUR. Thank you for really excellent testimony.

[The prepared statement of Home Builders Association of Greenville-Spartanburg appears on p. 100.]

Miss KAPTUR. Why don't we proceed to Mr. Wilson, and then we will open it up for questions.

STATEMENT OF ROBERT WILSON, III, PRESIDENT, GREENVILLE BOARD OF REALTORS

Mr. WILSON. Thank you, Madam Chairwoman.

My name is Robert Wilson. I am President of the Greenville Board of Realtors. I am a realtor myself, and on behalf of more than 1200 members of our association, we want to thank you and the members of your committee for coming to Greenville and for the opportunity to present our views on veteran housing issues and specifically those issues affecting the VA Home Loan Guaranty Program.

In the interest of time, I have also made my statement available to you. I am going to kind of summarize my points here. Some of them have already been gone over. This is one of the things—when you are last on the program, you do not get to give you the good stuff.

[Laughter]

Mr. WILSON. The increased user fee—we, of course, are against this, and we appreciate your views and your support in this area.

We would also support very much in this area the change in the VA-administered interest rate. We feel like—a classic example has been the FHA Program. We feel like the National Association has given us their findings on the FHA where they have allowed their rate to be free and not maxed out, and we feel that this is a good program.

We found it to be very competitive. We also found it to be very flexible and structured better to the particular needs of the home buyer by allowing the interest rate to remain free.

One of the things that we feel like would help speed up the appraisal process, which seems to be the slowdown in our VA system, or getting a loan through for our home buyer, would be to institute direct appraisals in the VA Home Loan Guaranty Program.

In other words, we feel that this would help—we are going with a VA-approved appraiser to begin with. We feel like we have a point in which we are maybe wasting some time there. Basically because we are in the upstate, it has to go to Columbia. We have to mail it down there, mail it back. You have got the postal system to deal with or the Pony Express or whoever you use, so that this time element becomes a problem, and when you have an individual trying to buy a house, 3 months is a long time to wait to get them into a house when they can go with a conventional system and be in in 6 weeks or something of this nature. This would help, we feel, the VA Program there.

Also we feel like the VA Home Loan Guaranty maximum, since we are one of the areas where housing seems to be more expensive in South Carolina—we feel like the maximum could be raised from $27,500 to somewhere around the $36,000 mark.

These are the basic things.

Several of my realtors—I asked them to call me with any suggestions they might have that I might present to this panel. The first thing that I got from everyone was that we needed an armed forces base in the upstate of South Carolina.

[Laughter]

Mr. Wilson. We would be very able to serve the veterans—

Miss Kaptur. The chairman will take care of that for you.

[Laughter]

Mr. Wilson. So these are my comments, and I welcome any questions you might have.

[The prepared statement of Mr. Wilson appears on p. 117.]

Miss Kaptur. Thank you, Mr. Wilson, Mr. Johnson and Mr. Giles.

On the question of the floating interest rate, of course, most of the—all of the veterans' organizations oppose such a move in the bill that we are drafting. You made the comment that FHA and Farmers' Home are disastrous compared to Veterans' Home—

Mr. Giles. As far as administration.

Miss Kaptur. As far as administration. And one of the reasons we were given was because of the floating interest rate, and I guess I am interested in your contrasting those two statements, because at the moment we are not proposing any kind of floating interest rate in our bill as being an advantage to veterans.

Mr. Giles. In relationship to the homebuilding industry, we take the position to leave it as you have it right now. The problem comes into what the mortgage bankers were discussing, the high number of discount points that you have on it, and that could be devastating from the seller's perspective, but the VA Program over the years has been the benchmark by which interest rates are sometimes determined through single-family housing, and from that standpoint we would like to see it preserved as a national association and as a local association.

Miss Kaptur. Any comments, Mr. Wilson? You must have comments.

Mr. Wilson. Well, we are at the beginning point. We are trying to get the contract together from the salesman's point of view, and so often when the points are so high, it is almost an impossibility to use the VA Program because the seller will not agree to pay the points, and we, of course, feel it is a detriment to the veteran who would like to use this program, and that is our thinking on it coming from that standpoint.

Mr. Giles. A suggestion that came out of a little group talk a minute ago was that maybe have a rate that administered—could be adjusted within a half a point. By having a half a point is really basically equal to four discount points, if I recollect right, and if you would have the ability to adjust that administratively within a half a point and go either direction, then that would give the ability for the discount points to be lower.

Just change the rate a half a point where it could go from one side to the other. Then that may solve the problem, may be a fair compromise.

Miss Kaptur. We thank you very much for that suggestion.

I wanted to ask you, I made an earlier comment regarding the possibility of the VA selling more foreclosed properties. If the reasonable value for loan purposes could be expanded to include an additional amount for rehabilitation purposes, how would you react to that proposal?

I do not know whether you were listening during that discussion or not.

Mr. Wilson. Yes. I would think that would be a helpful thing in terms of fixing up a property that needs to—

Miss Kaptur. Right. And we were informed that that was not a real problem for the most part of South Carolina.

Mr. Wilson. It is not as major an item in our area. We are dealing also with the fact that our VA Program—we have probably 9½ percent of our loans go through VA, whereas a much greater percentage goes through FHA.

I wonder—and I tried to get this information and I could not find it—in terms of how many actual veterans in the Greenville area—to try and get a feel for if we are, in fact, missing the boat because of slow appraisal time or a long time there—whether or not people are going into the FHA as adverse to the VA because we do not have enough veterans. But I have not been able to get that statistical information.

Miss Kaptur. Did I understand your suggestion correctly? You would prefer, on the appraisal question, that we would actually hire VA appraisers, not use VA-approved appraisers, but actually bring them into—

Mr. Wilson. Well, use direct appraisal. In other words, institute the direct appraisal in VA home—in other words, not necessarily not use the people we already have, but not having it go back to Columbia again for another review. Just go straight to the lender who is, in fact, making the loan.

It is taking out a step, and the National Association of Realtors has presented that view and been very strong in it. In fact, in Denver the National Association of Realtors approved this act—supports the legislation to implement a direct appraisal loan processing system for the VA Home Loan Guaranty Programs. You might want to talk to the National about that, as well.

Miss Kaptur. All right.

Mr. **Wilson**. We feel like that we have got more safe checks than we actually need here. You have got a VA-approved appraiser, and you have got a lender who is actually making the loan. Yet we are going back to the VA staff again for them to review, and that seems to be where a lot of the time span is taken up.

Miss **Kaptur**. And how much would you say again in terms of what time period we are talking about? What would it collapse if we were to change that? How many weeks, months?

Mr. **Wilson**. I would say several weeks at least. Your mortgage bankers could probably answer that better than I could. But I think it would take out 2 to 3 weeks anyway, when you are talking about mail time plus the review time that it takes.

Miss **Kaptur**. We will certainly take a close look at that suggestion.

I would like to move on to Mrs. Patterson.

Mrs. **Patterson**. Thank you, Madam Chairman.

Just for my education and edification, what is the average cost of a home in South Carolina now? I see all the figures, you know, elsewhere. But when we talk about changing the limit for the guaranteed loan from $27,500 upward, I wonder.

Mr. **Wilson**. I can speak to the Greenville County area. We are looking around 74 to 75, but it is moving up. This is statistics from the MLS in the Greenville County area. The units have sold, the average sale price was 76,94 last month. The month before that was 76,33. So it is in the 76 range in our area.

Mrs. **Patterson**. And from the homebuilder's standpoint?

Mr. **Giles**. For new homes, approximately $82,000. It is moving up because there is not as much entry-level availability to purchase it right now.

Mrs. **Patterson**. Who do you all see asking about purchasing a home of having a home built, that want to use a VA Guaranteed Home Loan? What type of veterans do you see and about what price home are they hoping for? Do you have any idea?

In other words, is it the young married veteran or are you seeing a second home purchased by a veteran?

Mr. **Wilson**. In the first 4 months of this year, in MLS, the only figures that I have available to me, you are looking primarily in the, say, 50s to the 80s bracket, of course, in Greenville.

We had approximately 54 houses sold through the VA Program. I do not have an average approximate. I have got them listed here. I would be happy to give you this information from the MLS system. But I would say the 50s and 70s are—I would say a medium would be around the 65s somewhere.

Mrs. **Patterson**. And most of the people you see that are purchasing homes are what type of veteran?

Mr. **Johnson**. It varies considerably. Of course, in the upstate we do not really have that many—the veteran coming in, as opposed possibly to the low country that would have a much larger percentage.

We do have—I do not have an actual statistical figure there, but I am just speaking from what observations I have in my own personal offices, that it is probably in the 40s and 50s.

Mr. **Wilson**. This is 54 houses out of approximately 600- and-some-odd houses that sold through the Veterans' Administration.

Mrs. **Patterson**. Let me mention, Madam Chairwoman, if I might, something that you have alluded to—the renovation of homes that have deteriorated.

Greenville is very fortunate that they have the Greenville Redevelopment Authority that works out in the county. I recently took a tour with them to where they are taking homes that have become substandard and are offering them for sale to people at a very nominal amount, who will, in turn, get the help to fix it. This has been a real interesting eye-opener to me.

Now, this was not through the VA Program, but was through the Redevelopment Authority, which I thought was very interesting.

Let me ask you a question. I need to know about—everybody has acronyms—I need to know more about ARM.

Mr. Giles, I guess I should ask you. What would be the pros and cons of the adjustable rate mortgages for homebuilders?

Mr. **Giles**. The mortgage bankers that were here earlier would have been good people for that question. But basically for the adjustable rate mortgage, what area it does the most good for the home buyer is it offers him a lower qualifying rate. In other words, he can qualify for the house.

If it was a 9 percent or a 9½ percent loan, if you had an adjustable rate mortgage you will start off usually with a lower rate. That lower rate goes into the qualifying calculation, which lets them buy more home in the beginning because his income is going to increase over a period of time.

The adjustable rate mortgage also helps the lender. Offers the first-time home buyer more qualifying and more buying power than he would have before.

Miss **Kaptur**. Would the gentlelady just yield for one second?

Mrs. **Patterson**. Yes.

Miss **Kaptur**. You know, we found in the FHA Program that we have had problems with the ARMs because many lenders were making loans at a lower rate than they should have been, and, in fact, there have been some scandals in the ARMs Program as a result, and some savings and loans are having problems because of it and so forth.

How would you, on the con side, deal with that question if we were to move to the same sort of system within the VA? Cap it at a certain level or put it in a range or do what in order to insure that the program is properly administered?

Mr. **Giles**. We suggested a 5 percent cap and a 1 percent maximum annual adjustment, which means that the adjustment and the mortgage payment to the veteran, the most he could file in one year would be somewhere in the neighborhood, on a $50,000 house, about $50 to $60. So it would not be a tremendous jump in the mortgage payment.

The 5 percent increase, of course, would be a tremendous jump, but over a period of time a 1 percent annual cap and a 5 percent over the life of it, so if you rate the loan at 9½ percent, the maximum cap would be fourteen and a half.

Miss **Kaptur**. Can you insure that the lenders do not qualify people who would not be able to make the payments— that they do not undervalue the home?

Mr. GILES. What transpired over the last two years and what we saw in the new housing industry that hurt us was that we went through a lot of different changes in the underwriting requirements. They adjusted their guidelines to eliminate the provisions for the heavy losses that they had in adjustable rate mortgages.

I think over the last ten years since the adjustable rate mortgages has come on the market, there has been a lot of good solid thinking on it, and there is a good way to come up with an adjustable rate mortgage that works, and there is a lot of good information out there on what has not worked.

There is some good information that mortgage bankers can give you on one that does work, and the FHA one, now with the new qualifying rules that they are using, has worked in a lot of areas and helps put people into housing for the first time.

Mrs. PATTERSON. Madam Chairman, I think I probably should have asked—and I think Mr. Gosnell had some good suggestions; maybe in his prepared statement later I can get some good ideas from him if we cannot bring him back. I think maybe what the chairwoman just pointed out is when we use an acronym, we say "ARM," and she showed an example where the arm was twisted and used improperly, so—

[Laughter]

Mr. WILSON. One of the things I think we need to remember, too, was that the ARM, adjustable rate mortgage, had the negative amortization portion which gave us a bad name to begin with.

I think a lot of those were done in real high interest periods, and then the person sold their house to move on and suddenly discovered they owed more on their house than they actually paid when they bought it. This caused us some problems.

I think the new adjustables are a different breed, and I think the underwriting guidelines that we have now show that they are tougher on their qualifications of these, and also you are looking for a person whose income is going to increase, as well, that has a possibility of going on up.

Also the reverse is true. If the rates go back down, you get a refinancing without the cost of having to pay to have it refinanced.

Mrs. PATTERSON. I guess you have just answered one of my questions when you say you look at someone whose income is going to go up.

So probably the veterans that do come to you and want to purchase a home with a VA loan are going to be people who are not retired, but people who are maybe retired from the service but still have the opportunity to work and increase their income.

Thank you, Madam Chairwoman.

Miss KAPTUR. Thank you, Mrs. Patterson.

Doctor Rowland?

Dr. ROWLAND. Thank you, Madam Chairlady.

I am going to have to leave after this panel. I have got to catch a plane to go to South Georgia because I have a commitment down there this evening.

But there is one thing that has come up with every panel here that we have talked about, and that is the difference in the length of time that is required for a VA loan to go through compared to a conventional loan, and the chairman, Mr. Montgomery, brought up the point that we instructed the VA last year to shift personnel and to do whatever was necessary to get the appraisals done so we would not have that as a stumbling block.

So I hope that something will come out of this hearing that will cause us to move more expeditiously in getting VA loans through from the time the application is made until closing.

It certainly is distressing to a veteran who is trying to refinance, or finance, to have to wait so long and find that what he thought he was going to have to pay initially is more when the closing comes.

So I will just finish up with those remarks and thank you again for the opportunity to be here.

Miss KAPTUR. Doctor Rowland, we want to thank you for coming. You have been so faithful at attending field hearings and are one of the most active members of the full Veterans' Committee and all of the subcommittees. So we thank you for being here.

Plus he really is a great guy to work with.

Mr. Chairman, do you have any questions?

Mr. MONTGOMERY. Thank you.

I would like to follow up on Roy Rowland. He has certainly been faithful, and he takes a lot of time to come to different hearings, and I personally, like you, Madam Chairman, enjoy working with him.

I will be brief, just some short comments.

Over in my State when you say "FHA," it is usually Farmers' Home, but I assume that is Federal Housing Authority here?

Mr. WILSON. Yes.

Mr. MONTGOMERY. In Farmers' Home, are there many home loans over in this—

Mr. WILSON. In our Greenville area, not—you have to be what? 45 miles from—

Mr. JOHNSON. Well, we are quite active. In some parts of the State it is more active. There again, like the Veterans' Administration, it is much more active in the low country, but we have in the upstate some probably half a dozen builders in several counties that are working in it, but there again, it can use some streamlining also.

Mr. MONTGOMERY. Thank you.

Mr. Giles mentioned about mobile homes. That is something, Madam Chairman, for the subcommittee to look into. The plus and minus, I am a little concerned. If you have a down payment, how many veterans actually could make the down payment, and then on the other side staff tells me that there is a very high percentage, almost as much as 40 percent, repossessions of mobile homes across this country, which is rather high. And I am sure, Madam Chairman, knowing you, that you would look into that matter.

And, Mr. Wilson, about getting a military base in the northern part of South Carolina, you have really had good representation over the years with Mendel Rivers, with Bryan Dorn, John Spratt, who is on the committee now in South Carolina and has a staff member here, and Strom Thurmond.

We laugh in Washington, if you move another military base to South Carolina, it is going to sink into the sea.

[Laughter]

Mr. MONTGOMERY. So we will look after it after I get another base in my own town.

[Laughter]

Mr. MONTGOMERY. Thank you.

Miss KAPTUR. Thank you, Mr. Chairman.

I have one final question. Probably Mr. Wilson would be the best one to answer this. This regards VA foreclosed properties and, in your experience in trying to sell them, are they more or less difficult to sell than other properties on the market, and what condition do you usually find them in?

Mr. WILSON. Generally—and you have to speak in generalities in this area—we really do not have a major problem. I find that investors are interested in buying this type of property, that we do not really have—I do not think we have that big a problem of disposing of foreclosed—not like you would have—you know, the condition, they probably would not be in top condition like you would want a house that you were going to put on the market today, but they would not be in such a rundown condition that you could not sell them, I would think.

Miss KAPTUR. And, finally, on the manufactured housing, do you think the answer is a 25 percent down payment?

Mr. WILSON. Not really. I am not sure what the answer is. I have not really given a lot of thought to that. It is an area that we need to direct some attention to because we—your first-time home buyers are not able to go out and buy a stick-built house in a lot of cases, and we are going to have to look at that industry, but I am concerned also with the fact that so many of them come back and are foreclosed on.

Miss KAPTUR. Do you think tougher appraisal and underwriting would make a difference?

Mr. WILSON. Possibly. But I also think the major direction we maybe ought to go is into the area of getting them to be on the same structural levels as a stick-built home and getting them to go by the same guidelines so that it would appreciate.

Once you have put it on a permanent foundation, that you have something that is valuable and will appreciate, then you have got, you know—it is something that is always depreciating, and it is not a good idea.

Miss KAPTUR. Let me tell you this. In that regard, on the Housing Committee, the full Housing Committee of Banking, which you are all familiar with, we have been having a monumental battle just on the energy standards issue, and I would hope that the homebuilders and the realtors would get very involved because we were not able to even carry the amendment in subcommittee for equal standards in energy conservation, and this is extremely important.

Mr. WILSON. Yes.

Miss KAPTUR. And it is coming up again. We may have to fight it on the floor of the Congress, and we were not able to—as simple as that sounds, we were not able to carry that amendment in subcommittee, and that does not deal with structure or anything else, just the energy issue, energy standards. So this has been a recent—

Go ahead.

Mr. JOHNSON. That might account for one of the high percentage reasons for repossessions, because the money that these people have to spend is spent for energy. It could be going for payments.

Miss KAPTUR. Absolutely. I probably, like you, believe that the cost of that will be spread over the life of the mortgage.

The manufactured housing industry argues that it will preclude people from buying in the first place, and for whatever reason they were able to convince the majority of members of the subcommittee on housing of that, and I think they are absolutely wrong. But I would just encourage you to contact national associations and get them geared up.

They were not as active as the proponents from the manufactured housing industry, but it is a very critical issue, and I am surprised at our slow progress in trying to get equity, as you are talking about.

Mrs. PATTERSON. Madam Chairman, I would just like to say, we did invite representatives from the manufactured housing to participate, and I thought they would be here because I thought they should be a part, but they were not able to be here.

Miss KAPTUR. We would like to thank you gentlemen for waiting. You gave excellent testimony, and I hope for those of you who did not submit the written document, that you will provide it for the record. Thank you so very much.

Mrs. PATTERSON. Madam Chairman, while the other panel is coming forward, might I make a brief statement or observation?

Miss KAPTUR. Please.

Mrs. PATTERSON. In all of our panels that we have had to this point, I have been so impressed because there was a concern for the veteran.

I did not hear any of the groups express just an interest in their turf and that is refreshing, because so often when you hear testimony, it is how it will affect me. But in every case today, I heard how it will affect the veteran emphasized, and I really appreciate that, and I am sure the veterans in this room appreciate that.

I think that may be why the program is working better in South Carolina than it is elsewhere. I just wanted to commend you all.

Miss KAPTUR. Thank you, Mrs. Patterson.

Miss KAPTUR. And our final panel, Mr. Paul Greer, Past Department Commander, Disabled American Veterans, and Mr. Bernard Black, Department Adjutant, accompanied by E. Roy Stone, Jr., executive committeeman from the American Legion.

Thank you, gentlemen, for waiting. We certainly have saved the best for last, and we know of your reputations not only here in South Carolina, but around the country, and we are just so pleased to see you here today. We will take you in the order in which you appear on the witness list, starting with Mr. Greer. And please pull the microphone close to yourself.

STATEMENTS OF PAUL GREER, PAST DEPARTMENT COMMANDER, DISABLED AMERICAN VETERANS AND BERNARD BLACK, DEPARTMENT ADJUTANT, THE AMERICAN LEGION, ACCOMPANIED BY E. ROY STONE, JR., EXECUTIVE COMMITTEEMAN

STATEMENT OF PAUL GREER

Mr. GREER. Thank you, Madam Chairwoman.

First, on behalf of Greenville County, I would like to welcome you and your distinguished subcommittee here, and also my good friend, the Honorable Bryan Dorn, who did such an excellent job through the years as Chairman of the House Veterans' Affairs Committee, and Congressman Montgomery, who is also doing such a wonderful job. We appreciate it.

We are very pleased, Congresswoman Patterson, to have you serve on this House Veterans' Affairs Committee. I am reminded of your father, the late, great Senator Olin D. Johnson who, himself a combat veteran, was always a friend of the veteran. We owe him an eternal debt of gratitude.

Madam Chairwoman, on behalf of the members of the Disabled American Veterans of South Carolina, I would like to express my sincere appreciation for inviting me here today to express our views on the VA Home Loan Guaranty Program and the issue of homeless veterans.

I commend you and members of the subcommittee for your concern and consideration of the proposed legislative agenda regarding this program.

As you know, since the inception of this program, June 22, 1944, veterans have obtained over 12 million VA guaranteed home loans, helping them and their families to become homeowners, adding stability to our economy and expanding the tax base of every community in our nation.

However, during the early 1980s the housing and financial markets experienced a shortage of mortgage funds and, coupled with increased home prices and the highest interest rates in history, the VA's Home Loan Guaranty Program was adversely affected.

As you are aware, to increase revenues to the VA Home Loan Guaranty Fund, Congress passed Public Law 98-369 that doubled the user fee from 0.5 percent to 1 percent, and I want to thank you personally and the subcommittee for your recent actions to reject the Administration's proposed increase of the user fee to 2.5 percent.

The DAV has serious reservations about requiring a veteran to pay for the privilege of using an earned benefit entitlement. Further, it is our firm belief also that all VA loan programs must include funding for sufficient personnel to implement these programs designed to assist veterans and save taxpayers dollars, or they are doomed for failure.

For example, in fiscal year 1980 the VA Home Loan Guaranty Division was staffed with 2,349 personnel and closed 297,447 insured loans. During fiscal year 1986, 1,969 VA personnel closed 313,769 such loans. It is no wonder we receive so many complaints regarding these services with increasing foreclosure.

With the prospect of increasing the loan guaranty from $27,500 to $30,000, it seems this would be justified since VA statistics for fiscal year 1986 show the average home loan amount exceeded $70,000. I think it is slightly more than that in Greenville County.

Should the subcommittee favorably consider this adjustment, the DAV strongly recommends a similar adjustment in the VA's Specially Adapted Housing Program for disabled veterans, presently $35,000, and the VA Housing Assistance Program, presently $6,000.

This concludes my statement, Madam Chairwoman, and I again want to thank you and the members of the subcommittee for allowing me this opportunity to express the South Carolina Disabled American Veterans' views on these important issues.

Thank you.

[The prepared statement of Mr. Greer appears on p. 131.]

Miss Kaptur. Thank you, Mr. Greer.

Mr. Black?

Mr. Black. Thank you, Madam Chairwoman. On behalf of our Department Commander, James A. Hamilton, I am going to yield the mike to Past Department Commander, and past everything in the American Legion, Mr. E. Roy Stone.

It is a pleasure to be able to have you in South Carolina along with Chairman Montgomery.

Congresswoman Patterson, we appreciate you arranging to have this here, and Past Department Commander Bryan Dorn, Past Congressman Dorn—another past everything—it is a pleasure to be with you today.

STATEMENT OF E. ROY STONE, JR.

Mr. Stone. There are so many past's here, I do not know where to start.

[Laughter]

Mr. Stone. Madam Chairwoman and distinguished members of the subcommittee, at the request of James A. Hamilton, Sr., Department Commander, the American Legion, I am in a position to speak not only in his behalf as spokesman for South Carolina legionnaires, but as a member of the National Executive Committee.

Before proceeding, may I welcome you to South Carolina and to the home district of Mrs. Liz Patterson, our Representative, and may I say the first member that South Carolina has had on the Veterans' Affairs Committee since William Jennings Bryan Dorn, who dedicatedly served for many years as vice chairman and chairman on the Veterans' Affairs Committee.

Sonny, I did not expect you here, but you are a welcome surprise.

[Laughter]

Mr. Stone. I am delighted that you could come to South Carolina, because the last trip I went to Mississippi was to see our mutual friend, Ralph Godwin, in Jackson, and it certainly is always a privilege to see you, and I personally thank you, personally and otherwise, for what you are doing for the veterans of this country, and our friend, Mack Fleming, who comes from over here in Anderson County, which is a neighboring county—he is right now about 35 miles from home and he is getting itching feet.

[Laughter]

Mr. **Stone**. So I put you on notice that every time he comes down here, he hates to leave and it is a little harder, so you better start looking.

[Laughter]

Mr. **Montgomery**. Roy, I have told him often, if he leaves I am going to leave. We are not going to bring him down here anymore.

Mr. **Stone**. He is doing a great job for the Veterans' Affairs Committee, and we certainly appreciate the fact that we are on a first-name basis with him.

I have not mailed to your Washington office any prepared testimony because such testimony would have duplicated the Legion's stand which was given to your committee on April 22, 1987, by Enril Naschinski and Paul Egan of our Washington office.

I have carefully read their report, and we heartily endorse it, and we recommend that you look it over again for preferred study. Several items in that report will be emphasized later.

The time span in our State on securing direct loans or the Loan Guaranty Programs ranges from 4 to 6 weeks, depending on everything being in order. Cuts in VA personnel will no doubt widen this time span and further discourage this program.

In the metropolitan areas of our State, very few use the direct loan program, as most financial institutions have funds and use the Loan Guaranty Program. The present interest rate ranges from 9½ to 10 percent. Ten percent is now the maximum as set by the Administrator.

And, incidentally, I have attached to this report a copy of one of the lending institutions—of what the prevailing interest rates are for all types of mortgage loans, for your information.

In smaller towns and in rural areas, especially in the lower part of our State, it is dependent on the direct loan program.

We address the so-called user fee which came into being in 1983. From inception of the GI Housing Bill until 1983, there was no user fee. A fee of one-half percent was authorized. Later it was raised to 1 percent.

There is also discussion to raise the user fee to 2½ or 5 percent. And may I say, I was very encouraged when you made the remark that that will never happen. As one lender told me, "You can kiss the GI home loan program goodbye. It will no longer be attractive."

This brings up a question: Why the user fee? Over eleven million veterans did not have to pay it. It represents a tax on the veteran who happens to be from a different era. Is it the Government's intent—and I am speaking mainly from the Executive and OMB when I mention that term, "Government's intent," because OMB has never been a friend of the veterans. I will say that publicly. I will say it privately, and I will say more about it privately.

[Laughter]

Mr. **Stone**. Is it the Government's intent to liquidate the VA Loan Program? Doing so would break faith with the veteran. Promises that were made at a time when anything was good for him should be kept. He is not an economic liability, but an asset.

We are conscious that the last few years have brought about a higher foreclosure than usual. First we must remember that we have gone through a recession since 1982. Which brings up a thought: The Republicans call it recession, and the Democrats a depression, and I want to say any time a man loses his job or anything of that sort, it is a depression. There is not any recession to it. He is going through it. The veteran who was the last hired by a large corporation was the first to be laid off.

Second, consistent sound credit and good appraisal practices will greatly reduce such foreclosures.

We are also concerned with the loan guarantee. At present it is $27,500. We believe that in this area it should be raised to $30,000. In other areas of the country it should be even higher.

Furthermore, anyone assuming a VA loan, whether veteran or non-veteran, should be responsible for that loan in the event of a foreclosure, thereby relieving the mortgagor of any legal obligation. This will require legislation.

Time prevents our discussing the plight of the homeless veteran. It is more acute in large metropolitan areas and is more complex than one realizes. We suggest a study in depth before trying to resolve administratively or by law.

Summing up, we suggest that we go back to those basics which have successfully served 12 million veterans and have aided our nation economically. In the past few years the housing market has improved. Return to the VA control of its loan portfolio which was taken away in 1983, which will allow the VA to meet its legal obligations without having to ask for additional revenue.

Do away with the user's fee. See that personnel of the VA is not reduced in the loan program. And counsel the veteran who purchases so that he does not over-extend himself financially.

May I thank you for the privilege of making these few remarks, Madam Chairman.

[The prepared statement of the American Legion appears on p. 133.]

Miss KAPTUR. We certainly may, and we appreciate those remarks very much, Mr. Stone. We are so happy you could be with us today, as well as Mr. Black and Mr. Greer. I wanted to call on the chairman of the full committee first for any comments he might wish to make.

Mr. MONTGOMERY. Thank you, Madam Chairman.

Mr. STONE. Oh, boy, I am in trouble.

[Laughter]

Mr. MONTGOMERY. Mr. Greer, Mr. Stone, thank you for those very strong statements.

Mr. Black, it is nice to have you here. Roy Stone always needs somebody to introduce him.

[Laughter]

Mr. MONTGOMERY. Mr. Greer, we enjoy working with the DAV in Washington. It is a strong organization, and when they move, they certainly help us up there.

And E. Roy Stone is well known by veterans across the land, and Madam Chairperson, and also Liz, E. Roy Stone at the National Convention—which I hope the American Legion will invite you to sometime, either one of you—he has a breakfast which is part of the ritual of the convention. I mean, if you do not get invited to E. Roy Stone's breakfast, you really should not come to the convention because you do not really rate much.

[Laughter]

Mr. MONTGOMERY. It is quite an event. He collects money. If you do not move right quickly and sharply, then you get charged a dollar or two dollars, and it is quite an event.

But, Roy, you keep doing what you are doing for the veterans. You are right. We have to watch what takes place in the nation's capital, and, as I mentioned earlier in my opening remarks, we are no stronger up there than what the post and chapters do in the different home States.

Madam Chairman, let me close by saying this is one of the— sincerely one of the better hearings. I learned a lot about our home loan program today, and congratulations on having this hearing.

And to you, Liz Patterson, you have helped the veteran by the way it has been organized, arranged, and let us come to South Carolina and to your congressional district and be a part of the hearing out in the field where you can find out how these Government programs are working.

So thanks to both of you for giving the chairman the opportunity to be here today. Thank you.

Miss KAPTUR. Thank you very much, Mr. Chairman.

I would say that I know that prior to your service in Congress, you were in the insurance industry, and we are certainly going to look for your leadership on the insurance portions of the bill that we talked about, and with the help we need in drafting those sections.

Mrs. Patterson?

Mrs. PATTERSON. Thank you, Madam Chairman.

First of all, I would like to say that I feel honored to be sitting facing such distinguished gentlemen. Mr. Greer was very modest and did not tell you he is on the Greenville County Council and leads very well in this area as a past chairman of the Council.

And, of course, Mr. Stone—you know, when they kept talking about you all "past" and "past," to me you are not past because you are still very much active, both you and Congressman Dorn, so let us not say "past."

And I certainly appreciate that activity, and I think that—one thing that the chairman said just now that I want to second is I think it is good that we started our field hearings in South Carolina because, as many of us know in this room, we are fortunate. We sometimes think that we are on the bottom of the list in a lot of things, the statistics, but if we look at situations in hearings we have heard in Washington, we are very fortunate.

We are not like Texas at this point. We heard there where—and I am sure the realtors would be interested—we heard there are so many foreclosures that they are actually having auctions and selling houses really on the block at ridiculous prices, and it has been very interesting for me to see that things are not the same across our great United States, and I am so glad to be able to share with the subcommittee, which will go back to Washington, what is going on in South Carolina and how our groups, our veterans' groups, as well as our realtors, homebuilders, mortgage bankers, lenders and Veterans' Administration are working together.

Let me just ask one question in closing. Again we have heard a lot about the ARMs, the adjustable rate mortgages, and I would just want to ask you, as representatives of the veterans' organizations, how do you think that program would affect our veterans? Are you familiar enough with it that you could address that?

Mr. STONE. Do you mean the homeless folks?

Mrs. PATTERSON. No. The adjustable rate mortgages that are being suggested.

Mr. STONE. Oh, the adjustable rate mortgage.

Mr. GREER. Mr. Stone, being in the real estate business, I think I can answer that better.

Mrs. PATTERSON. I will say, Mr. Stone, from your national level we heard, testimony on this. So I know that we have that statement.

Mr. STONE. I do not know what National said. They have not cleared that with me yet.

[Laughter]

Mr. STONE. Excuse me. I did not mean to be facetious.

I tell you, and it is right interesting, I sat at a hearing in Washington, D.C., in 1951 or '52. I have forgotten the exact year. You know, the great discussion at that time was they were raising Cain whether or not to raise the mortgage rate from 4 percent to four and a half, and the Legion was—many in the Legion were against wanting to lift the maximum rate to four and a half because look at all these guys here, they just got out of service, and these others have been to school, and they are ready to buy a home, now they have got to pay a half percent more. And there was quite a bit of discussion about it.

When you say about an adjustable rate mortgage, that was when they came in and began to tie themselves to the money market, which they had not been able to do. I mean, they would not do it because the FHA was having to raise. So they tied themselves with the FHA with a half percent under the FHA rate.

An adjustable rate, if it is determined, in my opinion it is going to have to be based minimum once a year and based on what the prime rate is on this date. Say, if you say as of January 1st or whatever the date of the mortgage is, attach it to that prime rate, 3 percent plus prime or whatever you are going to do, because there is no other way that I can see it can be worked out, and I do not think you should go to it and re-adjust it monthly or something of that sort. I think you should just do it once a year.

To be frank with you, I have got several mortgages that I own that I do an adjustable basis on once a year.

Mrs. PATTERSON. Madam Chairman, that would be all my questions at this time.

Miss KAPTUR. All right.

You know, Mr. Dorn has been sitting here so patiently all morning, and I could just tell by his eyes, my father would say, "He is a good man."

I am wondering if you have any comments you would like to make as we close down here, Mr. Dorn.

Mr. DORN. Madam Chairman, none whatever except that I am just delighted to have you visit South Carolina. Of course, we love Liz and want to say again that these veterans are very fortunate in having her represent South Carolina. She not only represents veterans; she represents everybody. And it is good, and thank you for coming, both of you.

Miss KAPTUR. Thank you very much.

Mr. MONTGOMERY. Madam Chairman, I would like to make the motion that, when we adjourn, it would be in honor of Bryan Dorn.

Miss KAPTUR. Thank you for that suggestion, and let me officially thank you, the Disabled American Veterans and the American Legion, who do such an effective job at the national level, and I know from my own district and state how terrific they are, not only at servicing the veterans, but at testifying and helping us improve our services at our out-patient clinics and hospitals all the time, just all the time, and we would be nowhere without those organizations.

And, like the chairman says, we would not be successful in Washington in passing this legislation—and I go to a lot of hearings and I do have to say to Congresswoman Patterson that the list of witnesses, however you chose the people who came before us, this has been a great help to us.

I see the gentlemen from the Veterans' Administration are still with us, and we do intend to take your suggestions very seriously, and we expect to have a bill completed probably by late summer, early fall, and many, many of the suggestions that were made here today will become the law of the land.

So we appreciate your time and I say, God bless everybody in South Carolina. Thank you for letting us be with you today.

Mrs. PATTERSON. Madam Chairman, before we close I would just like to thank you for making this time available to all of us in South Carolina to speak, but I would also like to thank Doctor Tom Barton and all the staff at Greenville Tech who made this wonderful facility available to us, and for all the work that they put into this activity, and to thank my staff and the staff of the Veterans' Affairs Committee in Washington.

But let me say to those of you in this room, let us not stop here. Let us continue to let the Veterans' Affairs Committee know how we feel on issues, and I hope that anyone in this room will feel free to call my office here in Greenville, or Spartanburg or Union, and let me know if ever I can be of assistance to you, because one out of every nine people living in the 4th Congressional District is a veteran. So I am here to serve you and represent you.

And again, Madam Chairman, thank you very much for being with us.

Miss KAPTUR. Thank you very much.

And finally, before we close, I would like to introduce members of our staffs. And, Liz, I will have to defer to you for your own staff, but we did bring with us some of the members of the Veterans' Affairs Committee who work so well with us.

You have already met Mack Fleming, the Chief General Counsel; Gloria Royce, who serves us so well on the Subcommittee on Housing and Memorial Affairs here; Ann Stone from the committee and also my own staff member; Susan Short. They make all the arrangements. And also Lee Ann Mayo, who is sitting right up here, who helped us time the witnesses and kept us all in order. Thank you all very, very much for joining us today.

The committee is adjourned.

[Whereupon, at 12:55 p.m. the subcommittee was adjourned.]

APPENDIX

REMARKS OF MISS KAPTUR, CHAIRWOMAN
SUBCOMMITTEE ON HOUSING AND
MEMORIAL AFFAIRS

GREENVILLE, SOUTH CAROLINA

MAY 29, 1987

THE SUBCOMMITTEE WILL BE IN ORDER.

DURING THE LAST FEW MONTHS, THE SUBCOMMITTEE HAS HELD A NUMBER OF OVERSIGHT HEARINGS ON THE VETERANS ADMINISTRATION HOME LOAN GUARANTY PROGRAM. THE TESTIMONY WE RECEIVED FOCUSED ON ITS STRENGTHS AND WEAKNESSES.

THE DIFFERENT PERSPECTIVES PRESENTED HAVE BEEN MOST BENEFICIAL TO US IN OUR PRELIMINARY EFFORTS TO FORMULATE LEGISLATION.

BEFORE PROCEEDING WITH OUR LEGISLATIVE AGENDA, HOWEVER, WE THOUGHT IT WOULD BE APPROPRIATE TO GET ADDITIONAL BACKGROUND BY GOING INTO THE FIELD TO DISCUSS THE OPERATION AND MANAGEMENT OF THE PROGRAM ON A LOCAL LEVEL.

I THEREFORE WISH TO THANK THE GENTLELADY FROM SOUTH CAROLINA, MRS. PATTERSON, FOR INVITING THE SUBCOMMITTEE TO GREENVILLE FOR ITS FIRST FIELD HEARING. MRS. PATTERSON HAS BEEN ONE OF THE SUBCOMMITTEE'S MOST ACTIVE MEMBERS; AND EVEN THOUGH SHE HAS A VERY BUSY SCHEDULE, HAS ATTENDED ALL OF THE SUBCOMMITTEE'S PREVIOUS HEARINGS AND HAS CONTRIBUTED SIGNIFICANTLY TO THEIR SUCCESS.

THE SUBCOMMITTEE IS ALSO HONORED TO BY THE PRESENCE OF THE CHAIRMAN OF THE FULL COMMITTEE, G. V. (SONNY) MONTGOMERY, WHO IS KNOWN IN ALL CIRCLES AS THE ULTIMATE CHAMPION OF VETERANS. IN ADDITION TO THE STRONG LEADERSHIP HE HAS PROVIDED TO ASSURE THE CONTINUATION OF MEANINGFUL VETERANS BENEFITS AND SERVICES, MR. MONTGOMERY IS THE AUTHOR OF THE NEW GI BILL WHICH HAS PROVED VERY SUCCESSFUL THUS FAR. AS A MATTER OF FACT, THE PRESIDENT IS WILL HOPEFULLY SIGN LEGISLATION SHORTLY TO MAKE IT A PERMANENT PROGRAM.

ADDITIONALLY, WE ARE ACCOMPANIED BY THE HONORABLE ROY ROWLAND OF GEORGIA, AND THE FORMER CHAIRMAN OF THE HOUSE VETERANS' AFFAIRS COMMITTEE, THE HONORABLE WM. JENNINGS BRYAN DORN, WHO SERVED VERY CAPABLY IN THAT CAPACITY IN THE 95TH CONGRESS. LASTLY, WE ARE PRIVILEGED TO BE JOINED BY SENATOR STROM THURMOND. SENATOR THURMOND HAS A LONG RECORD OF SUPPORT FOR THIS NATION'S VETERANS AND SERVES ON THE SENATE VETERANS' AFFAIRS COMMITTEE.

IN ESSENCE, THE HEARING THIS MORNING FOCUSES ON THE OPERATION OF THE VA GUARANTEED HOME LOAN PROGRAM IN THE STATE OF SOUTH CAROLINA -- INCREASED LOAN ORIGINATION ACTIVITY DUE TO LOWER INTEREST RATES, WORKLOAD TIMELINESS, AND FORECLOSED PROPERTY INVENTORY, MANAGEMENT AND SALES. AS WITH CONVENTIONAL AND FHA LOANS, THERE HAS BEEN A SUBSTANTIAL MORTGAGE FORECLOSURE INCREASE IN VA GUARANTEED HOME LOANS.

VA PAID 29,438 CLAIMS IN CALENDAR YEAR 1985 AND 34,750 IN CALENDAR YEAR 1986. THIS IS AN INCREASE OF 18.1%. I BELIEVE THAT INCREASED SERVICING ON LOANS COULD RESULT IN FEWER FORECLOSURES AND PLAN TO DISCUSS THIS POSSIBILITY WITH SOME OF OUR WITNESSES.

BEFORE CALLING OUR FIRST WITNESS, I WOULD LIKE TO RECOGNIZE THE CHAIRMAN OF THE FULL COMMITTEE FOR HIS REMARKS.

RECOGNIZE MRS. PATTERSON.

RECOGNIZE OTHER MEMBERS.

THIS MORNING OUR FIRST WITNESS IS MR. STEDMAN SLOAN, DIRECTOR OF THE VA REGIONAL OFFICE IN COLUMBIA.

REMARKS OF MRS. PATTERSON

SUBCOMMITTEE ON HOUSING AND

MEMORIAL AFFAIRS

GREENVILLE, SOUTH CAROLINA

MAY 29, 1987

THANK YOU, MADAM CHAIRWOMAN, FOR HOLDING THIS HEARING. WE ARE TRULY FORTUNATE TO HAVE SOMEONE OF YOUR CALIBER AS CHAIR OF THIS SUBCOMMITTEE.

I ALSO WANT TO THANK THE CHAIRMAN OF THE FULL COMMITTEE, MR. MONTGOMERY, FOR JOINING US. MR. CHAIRMAN, AS AN OUTSPOKEN ADVOCATE OF VETERANS RIGHTS, YOU HAVE ASSURED THAT THIS NATION WILL STAND BY ITS COMMITMENTS. WE ARE HONORED TO HAVE YOU HERE TODAY.

MR. ROWLAND, WELCOME TO SOUTH CAROLINA. YOUR INTEREST AND ENTHUSIASM HAVE CONTRIBUTED SO MUCH TO OUR SUBCOMMITTEE, AND WE ARE PLEASED TO HAVE SUCH AN EFFECTIVE COLLEAGUE JOIN US FOR THIS HEARING.

WE ARE ALSO PRIVILEGED TO HAVE SENATOR THURMOND WITH US, A LONG TIME SUPPORTER OF OUR NATION'S VETERANS. I WOULD LIKE TO EXPRESS MY PERSONAL APPRECIATION FOR THE KIND OF BI-PARTISAN COOPERATION THIS DEMONSTRATES WHEN IT COMES TO SUCH AN IMPORTANT ISSUE AS THE VA HOME LOAN PROGRAM.

MR. DORN, WE WELCOME YOU AS A VERY SPECIAL GUEST, HAVING SERVED PREVIOUSLY AS CHAIRMAN OF THE FULL COMMITTEE. YOUR EXPERIENCE WITH VETERANS' PROGRAMS AND YOUR SUPPORT FOR OUR EFFORTS WILL BE MOST HELPFUL AS WE PROCEED.

THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS HAS CONDUCTED A NUMBER OF OVERSIGHT HEARINGS IN WASHINGTON, D.C., THIS SPRING ON THE VA HOME LOAN GUARANTY PROGRAM. WE HAVE HEARD FROM A BROAD CROSS-SECTION OF WITNESSES WHO HAVE TESTIFIED ON VARIOUS ASPECTS OF THE PROGRAM. FROM THEIR DIFFERENT POINTS OF VIEW, SOME VERY SIGNIFICANT CONCERNS HAVE EMERGED WHICH OUR SUBCOMMITTEE IS ADDRESSING.

FIRST AND FOREMOST, THE VA LOAN GUARANTY PROGRAM IS ONE OF THE MOST SUCCESSFUL FEDERAL PROGRAMS EVER CONCEIVED. OVER 12 MILLION VETERANS HAVE BEEN ABLE TO ACHIEVE THE AMERICAN DREAM OF

OWNING THEIR OWN HOME -- MORE THAN 132,000 OF THEM HERE IN SOUTH CAROLINA. THIS HAS BEEN DONE AT MINIMAL COST TO THE TAXPAYER, AND WITH IMMEASURABLE BENEFITS TO OUR NATION'S ECONOMY.

UNFORTUNATELY, WE HAVE RECENTLY SEEN SOME EFFORTS IN WASHINGTON TO CHIP AWAY AT THE VA HOME LOAN PROGRAM. OUR SUBCOMMITTEE WILL NOT TOLERATE ANY ACTION WHICH WOULD UNDERMINE THE HEALTH OF THIS PROGRAM OR THE SOLVENCY OF THE LOAN GUARANTY REVOLVING FUND. HOUSE CONCURRENT RESOLUTIONS 78 AND 79, WHICH I HAD THE PRIVILEGE TO CO-SPONSOR, HAVE PUT THE ADMINISTRATION FIRMLY ON NOTICE ABOUT THIS, AND I WOULD LIKE TO COMMEND CHAIRWOMAN KAPTUR FOR INTRODUCING THOSE RESOLUTIONS. THEY WERE

PASSED UNANIMOUSLY BY THE HOUSE OF REPRESENTATIVES ON APRIL 27, AND HAVE BEEN REFERRED TO THE SENATE.

OTHER AREAS OF CONCERN INCLUDE THE INCREASE IN FORECLOSURE RATES, VA PROPERTY MANAGEMENT PRACTICES, AND THE PLIGHT OF OUR HOMELESS VETERAN POPULATION. OUR SUBCOMMITTEE IS GOING TO BE CONSIDERING LEGISLATION TO ADDRESS THESE ISSUES.

BEFORE WE DO SO, HOWEVER, WE WANT TO HEAR FROM PEOPLE AT THE GRASS ROOTS LEVEL. ALL TOO OFTEN LEGISLATION IS FORMULATED IN ISOLATION, WITHOUT BENEFIT OF THE VIEWS OF PEOPLE WHO ACTUALLY

USE AND MANAGE THE PROGRAM. THAT IS WHY WE ARE HOLDING A SERIES OF FIELD HEARINGS, AS A FOLLOW-UP TO OUR HEARINGS IN WASHINGTON, D.C. I AM VERY PROUD THAT GREENVILLE HAS BEEN SELECTED FOR THE FIRST OF THESE FIELD HEARINGS.

MADAM CHAIRWOMAN, I COMMEND YOU FOR YOUR OUTSTANDING LEADERSHIP WITH THE SUBCOMMITTEE. DESPITE YOUR VERY BUSY SCHEDULE, AND YOUR EXCELLENT RECORD OF SERVICE TO YOUR CONSTITUENTS, YOU HAVE INITIATED A MAJOR LEGISLATIVE AGENDA TO STRENGTHEN THE VA HOME LOAN GUARANTY PROGRAM. TOGETHER WITH OTHER MEMBERS OF THE CONGRESS WE ARE GOING TO MAKE SURE THAT THE VA HOME LOAN PROGRAM CONTINUES TO HELP VETERANS AND SERVICE

PERSONNEL BECOME HOME OWNERS, AND THAT IT WILL BE AS SUCCESSFUL IN THE FUTURE AS IT HAS BEEN IN THE PAST.

I WOULD ALSO LIKE TO THANK OUR WITNESSES FOR AGREEING TO TESTIFY THIS MORNING. YOUR CONCERN FOR THE VA LOAN GUARANTY PROGRAM AND YOUR COMMITMENT TO ITS OBJECTIVES WILL GIVE THE SUBCOMMITTEE VALUABLE INSIGHT AS WE PROCEED IN OUR LEGISLATIVE AND OVERSIGHT DELIBERATIONS.

MR. SLOAN, WE APPRECIATE HAVING SUCH A FINE REPRESENTATIVE OF THE VETERANS ADMINISTRATION HERE. THANK YOU FOR BEING WITH

US, AND ALSO FOR HELPING THE SUBCOMMITTEE LINE UP SUCH AN EXCELLENT SET OF WITNESSES FOR TODAY'S HEARING.

THAT CONCLUDES MY OPENING STATEMENT, MADAM CHAIRWOMAN. AND AGAIN, I COMMEND YOUR AMBITIOUS AND INNOVATIVE EFFORTS TO PROTECT AND IMPROVE THIS VERY IMPORTANT VA PROGRAM.

REPORTER

STATEMENT BY SENATOR STROM THURMOND BEFORE THE HOUSE VETERANS' AFFAIRS SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS RE: FIELD HEARING ON THE VETERANS' ADMINISTRATION HOME LOAN GUARANTY PROGRAM, FRIDAY, MAY 29, 1987, 10:00 A.M., GREENVILLE TECHNICAL COLLEGE, GREENVILLE, S.C.

MR. CHAIRMAN:

IT IS A DISTINCT PLEASURE TO BE IN SOUTH CAROLINA TO HEAR FROM THESE DISTINGUISHED WITNESSES INVOLVED IN THE DAY-TO-DAY OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM. I AM PLEASED THAT REPRESENTATIVES FROM THE VETERANS' ADMINISTRATION, THE SERVICE ORGANIZATIONS, LENDING INSTITUTIONS, AND HOME BUILDING ASSOCIATIONS WILL BE TESTIFYING TODAY.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO WELCOME CONGRESSMAN MONTGOMERY - CHAIRMAN OF THE HOUSE VETERANS' AFFAIRS COMMITTEE, CONGRESSWOMAN KAPTUR - CHAIRPERSON OF THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,AND CONGRESSMAN ROWLAND MEMBER OF THE HOUSE VETERANS' AFFAIRS COMMITTEE, TO SOUTH CAROLINA. CONGRESSWOMAN PATTERSON, IT IS A PLEASURE TO BE HERE IN YOUR DISTRICT.

CHAIRMAN MONTGOMERY HAS LONG BEEN A STRONG LEADER ON VETERANS' ISSUES, AND A VERY ABLE ADVOCATE FOR ALL VETERANS. IT IS A DELIGHT TO HAVE YOU HERE. THE PEOPLE OF MISSISSIPPI AND SOUTH CAROLINA SHARE MANY OF THE SAME THOUGHTS AND IDEAS. IT HAS BEEN A DISTINCT PLEASURE TO WORK WITH YOU OVER THE YEARS. MOST RECENTLY, I WAS PLEASED TO WORK WITH CHAIRMAN MONTGOMERY ON THE NEW GI BILL CONTINUATION ACT, WHICH MAKES THE GI BILL PERMANENT. I WAS PLEASED TO HAVE THE OPPORTUNITY TO MAKE THE MOTION TO REPORT THIS BILL OUT OF THE ARMED SERVICES' COMMITTEE WITHOUT AMENDMENT. CHAIRMAN MONTGOMERY, IT IS

TRULY AN HONOR TO HAVE YOU AND THE OTHER MEMBERS OF THE HOUSE VETERANS' AFFAIRS COMMITTEE HERE TODAY.

THROUGHOUT THE HISTORY OF THIS NATION, MEN AND WOMEN OF SOUTH CAROLINA HAVE ESTABLISHED AN OUTSTANDING RECORD OF SERVICE IN OUR COUNTRY'S ARMED FORCES. AS THE SENIOR REPUBLICAN MEMBER OF THE SENATE VETERANS' AFFAIRS COMMITTEE, I AM VERY PROUD OF OUR SOUTH CAROLINA VETERANS. ACCORDINGLY, MR. CHAIRMAN, I WANT TO COMMEND YOU FOR SELECTING SUCH AN APPROPRIATE LOCATION FOR THIS HEARING.

SINCE ITS INITIATION IN 1944, THE VA HOME LOAN PROGRAM HAS SERVED THE VETERANS OF THIS COUNTRY AND THIS STATE WELL. NATIONWIDE, MILLIONS OF VETERANS HAVE BEEN PROVIDED AN OPPORTUNITY FOR HOME OWNERSHIP. IN MARCH OF THIS YEAR, THE VA MADE ITS 12 MILLIONTH GUARANTEED HOME LOAN SINCE COMMENCEMENT OF THE PROGRAM. THIS REPRESENTS A TOTAL VALUE OF $257.4 BILLION. HERE IN SOUTH CAROLINA, OVER 130,000 VA LOANS HAVE BEEN MADE SINCE 1944. OF THIS AMOUNT, 4,884 WERE MADE IN 1986.

AS MANY OF YOU KNOW, THE FIRST GUARANTIES WERE LIMITED TO VETERANS, WITH THE MAXIMUM GUARANTY BEING $2,000. TODAY, THE PROGRAM HAS BEEN EXPANDED TO ALSO INCLUDE ACTIVE DUTY SERVICE MEMBERS. IN ADDITION, THE VA NOW GUARANTEES TO PAY THE LENDER 60% OF THE LOAN, BUT NO MORE THAN $27,500, IF THE BORROWER DEFAULTS.

EARLIER THIS YEAR, THERE HAD BEEN A PROPOSAL TO INCREASE THE LOAN GUARANTY FEE IN FISCAL YEAR 1988, FROM 1% TO 2.5%. HOWEVER, I OPPOSED THAT INCREASE AND WAS PLEASED THAT THE FISCAL YEAR 1988 BUDGET RESOLUTION -- APPROVED EARLIER THIS YEAR -- DID NOT CONTAIN AN INCREASE.

MR. CHAIRMAN, THE VA HOME LOAN PROGRAM HAS BEEN QUITE EFFECTIVE IN MEETING THE HOUSING NEEDS OF VETERANS. DESPITE ITS EFFECTIVENESS, I HAVE SOME CONCERNS OVER THE LARGE NUMBER OF FORECLOSED HOMES IN THE VA INVENTORY. AS OF APRIL 30, 1987, THERE WERE 21,820 SUCH PROPERTIES. I THINK IT IS IMPORTANT FOR US TO CLOSELY EXAMINE THE PROGRAM TO DETERMINE THE CAUSE FOR SUCH A LARGE NUMBER, AND THEN TO ACT PROMPTLY TO ADDRESS THIS MATTER.

MR. CHAIRMAN, I REGRET THAT I CAN NOT REMAIN FOR THE FULL HEARING, AS I HAVE HAD A LONGSTANDING COMMITMENT TO ATTEND A HIGH SCHOOL COMMENCEMENT ACROSS TOWN. I LOOK FORWARD TO REVIEWING THE TESTIMONY OF THE DISTINGUISHED WITNESSES WHO ARE HERE TODAY.

REMARKS OF MR. MONTGOMERY

CHAIRMAN

U. S. HOUSE OF REPRESENTATIVES

VETERANS AFFAIRS COMMITTEE

GREENVILLE, SOUTH CAROLINA

MAY 29, 1987

THANK YOU, MADAM KAPTUR. I ALSO WISH TO COMMEND THE GENTLELADY FROM SOUTH CAROLINA, MRS. PATTERSON, FOR INVITING US TO HOLD A FIELD HEARING ON THE OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM IN HER GREAT STATE. I AM VERY PLEASED TO BE IN SOUTH CAROLINA TODAY. SOUTH CAROLINA HAS HAD SOME OF ITS MOST DISTINGUISHED CITIZENS SERVE IN POSITIONS OF LEADERSHIP IN THE UNITED STATES CONGRESS - YOUR CURRENT SENIOR SENATOR, STROM THURMOND WHO IS WITH US THIS MORNING - THE FORMER CHAIRMAN OF THE HOUSE COMMITTEE ON VETERANS, BRYAN DORN, ALSO WITH US TODAY, AND THE LATE SENATOR OLIN D. JOHNSTON, WHO SERVED FOR SO MANY YEARS IN THE UNITED STATES SENATE.

BRYAN, I REGRET I COULD NOT BE IN COLUMBIA THIS PAST TUESDAY TO BE WITH YOU, MRS. DORN AND OTHER MEMBERS OF YOUR FAMILY AND FRIENDS FOR THE UNVEILING OF YOUR

PORTRAIT WHICH WILL HANG IN THE STATE CHAMBERS IN HONOR OF YOUR DISTINGUISHED CAREER.

I WANT EVERYONE HERE TO KNOW HOW PLEASED I AM TO HAVE MRS. PATTERSON ON THE COMMITTEE ON VETERANS' AFFAIRS. IMMEDIATELY FOLLOWING HER ELECTION, I CONTACTED HER TO REQUEST THAT SHE CONSIDER OUR COMMITTEE AND SHE IMMEDIATELY ACCEPTED. MRS. PATTERSON WILL BE A GREAT MEMBER OF THE COMMITTEE, FOLLOWING IN THE FOOTSTEPS OF FORMER CONGRESSMAN AND CHAIRMAN OF THE COMMITTEE, THE HONORABLE BRYAN DORN.

I BELIEVE IT IS IMPORTANT THAT WE GO TO DIFFERENT AREAS IN THE COUNTRY TO SEE HOW OUR PROGRAMS ARE WORKING. THIS MAKES US BETTER LEGISLATORS IN THE CONGRESS. I AM MOST PLEASED THAT IN ADDITION TO THIS HEARING YOU HAVE PLANS TO FOLLOW-UP WITH OTHERS IN HOUSTON AND CHICAGO AND POSSIBLY OTHERS

THROUGHOUT THE COUNTRY.

THE VA HOME LOAN PROGRAM PROVIDES HOUSING CREDIT ASSISTANCE TO ELIGIBLE VETERANS AND SERVICE PERSONNEL THROUGH GUARANTEES OF LOANS MADE BY PRIVATE LENDERS ON MORE LIBERAL TERMS THAN GENERALLY AVAILABLE TO NON-VETERANS, WITHOUT THE ASSUMPTION OF UNDUE RISK BY THE GOVERNMENT. ASSISTANCE IS PROVIDED CHIEFLY THROUGH SUBSTITUTING THE GOVERNMENT'S GUARANTY ON LOANS IN LIEU OF THE SUBSTANTIAL DOWNPAYMENTS, RELATIVELY SHORT TERMS, AND OTHER INVESTMENT SAFEGUARDS APPLICABLE TO CONVENTIONAL MORTGAGE TRANSACTIONS.

SINCE THE INCEPTION OF THE PROGRAM IN 1944, 12 MILLION LOANS TOTALING $275.4 BILLION HAVE BEEN GUARANTEED TO PURCHASE CONVENTIONAL HOUSING, CONDOMINIUMS AND

MANUFACTURED HOUSING. IN SOUTH CAROLINA, OVER 132,000 LOANS HAVE BEEN GUARANTEED FOR A TOTAL OF $262 BILLION.

THIS HIGHLY SUCCESSFUL PROGRAM HAS NOT ONLY PROVIDED HOUSING OPPORTUNITIES FOR THESE MILLIONS OF AMERICAN FAMILIES BUT HAS ALSO SERVED TO BOOST THE ECONOMY.

DESPITE OMB'S EFFORTS TO LIMIT ITS EFFECTIVENESS, PROGRAM ACTIVITY IN FISCAL YEAR 1986 REACHED RECORD HIGH LEVELS. WE MUST PERSIST IN OUR EFFORTS TO ASSURE THAT THE PROGRAM CONTINUE TO SERVE THE FINANCING NEEDS OF AMERICA'S VETERANS AND SERVICE PERSONNEL.

FOR THOSE OF YOU WHO DON'T KNOW HIM, CONGRESSMAN ROWLAND IS FROM OUR NEIGHBORING STATE OF GEORGIA. HE HAS THE UNIQUE

DISTINCTION OF ALSO BEING A DOCTOR AND HIS EXPERTISE HAS BEEN OF TREMENDOUS HELP TO ME ON OUR SUBCOMMITTEE ON HOSPITALS AND HEALTH CARE.

AGAIN, MADAM CHAIRWOMAN, I AM PLEASED TO JOIN YOU FOR THIS HEARING IN SOUTH CAROLINA AND LOOK FORWARD TO THE TESTIMONY.

STATEMENT OF
R. STEDMAN SLOAN, JR.,
DIRECTOR, VETERANS ADMINISTRATION REGIONAL OFFICE,
COLUMBIA, SOUTH CAROLINA,
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
MAY 29, 1987

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to attend this field hearing with other members of the staff of the Veterans Administration Regional Office, Columbia, S. C., to discuss the administration of the Veterans Administration's Loan Guaranty Program in South Carolina.

It is currently estimated that 351,000 veterans reside in South Carolina. Assuming that each veteran is a member of a family of at least three, well over one million South Carolinians may potentially be affected by Veterans Administration programs. This level of veteran population has remained fairly stable during the last decade, and with the continued population shift to the Sun Belt states, I do not anticipate any decline in the number of eligible veterans in South Carolina in the near future.

The Veterans Administration Loan Guaranty Program in South Carolina provides an important benefit which has permitted thousands of veterans to purchase homes for their families. In many instances, this would not have been possible were it not for the VA Loan Guaranty Program. As you know, a VA guaranty has a significant impact on the willingness of financial institutions to finance home purchases. In addition, our Loan Guaranty Program has had a significant impact in the mortgage banking, home construction, and real estate sales industries in South Carolina, providing an important impetus to the growth of these industries and the overall economic growth of the state of South Carolina. Currently in South Carolina, approximately 144 lending institutions are approved for VA loan guaranty financing. Also participating in our South Carolina program are 1887 approved home builders.

The Loan Guaranty Division of the Veterans Administration Regional Office has a staff of 33 employees. As a result of the decrease of the VA maximum interest rate from a high of 17-1/2% in 1981 to its current rate of 10%, we have experienced increased workloads as veterans have taken advantage of the lower interest rates to refinance their VA guaranteed mortgages. Notwithstanding the fact that our staffing has not grown proportionately with the increase in workload, the dedication and hard work of our employees have resulted in our being able to continue to provide satisfactory service to constituents. In order to process this increased workload on a reasonably timely basis, it was necessary to contract out certain work activities in our loan processing area. This was accomplished with the close cooperation and assistance of our constituents in the mortgage banking industry, who have been highly cooperative and understanding since they are also experiencing high workloads. The ultimate beneficiary of this cooperation has been the home-buying veterans and his or her family. During FY 86, more than 4190 loan guaranty applications were processed, with a total of more than $261,838,558 in home loans being guaranteed by the Veterans Administration in South Carolina.

An important area in our Loan Guaranty Program is our Loan Service and Claims activity. In this area, we provide assistance to veterans who, as a result of financial hardship caused by various factors, find themselves in a position where their ability to sustain their home loan is threatened. To prevent a veteran from facing the loss of his or her home, we provide information, guidance, and, in some cases, intervention with the mortgage lender to arrive at a solution which will prevent foreclosure. Notwithstanding this important service, we experienced a foreclosure rate of 7% during FY 1986. When such an event occurs, we acquire the property and institute an aggressive program to sell the home. During FY 1986, we acquired 397 homes and sold 356 homes, at a total sales price of $14,255,051. During the first six months of FY 87, we have acquired 252 homes and have sold 210 homes for a total of $8,888,340. At the present time, we have an inventory of 212 acquired properties, which are being or will be offered for sale.

I have emphasized the importance of the Veterans Administration Loan Guaranty Program to the veteran population in South Carolina. It is important to also mention that our program is available as a benefit to active duty military personnel. As you know, in South Carolina we have a large military presence with Fort Jackson in Columbia, Shaw Air Force Base in Sumter, Myrtle Beach Air Force Base, Charleston Air Force Base, Charleston Naval Station, Marine Corps Air Station in Beaufort, Marine Corps Recruit Depot in Parris Island, and Fort Gordon in Augusta, Georgia, located in close proximity to South Carolina. Active duty personnel at these locations have in the past and will continue in the future to purchase homes during their assignments in South Carolina through the assistance of the VA loan guaranty program.

In summary, the Veterans Administration Loan Guaranty Program continues to be active in South Carolina, providing an important benefit to veterans, their dependents, and active duty military personnel. In addition, it will continue to have a significant impact on the stability and growth of the home building, mortgage banking, and real estate industries in South Carolina.

This concludes my formal remarks. I will be pleased to answer any questions which the Committee may have for me at this time.

STATEMENT OF

LINDA WHITEMAN

VICE PRESIDENT
ALLIANCE MORTGAGE COMPANY
GREENVILLE, SOUTH CAROLINA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF
GREATER GREENVILLE, SOUTH CAROLINA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Field Hearings in Greenville, South Carolina

on

The Veterans Administration Home Loan Guaranty Program

May 29, 1987

Madam Chairwoman and members of the Subcommittee, my name is Linda Whiteman. I am Vice President of Alliance Mortgage Company located in Greenville, South Carolina. I am also President of the Mortgage Bankers Association of Greater Greenville, South Carolina. We appreciate the opportunity to appear before you today to testify on the Veterans Administration (VA) home loan guaranty program.

OPERATION OF THE VA HOME LOAN GUARANTY PROGRAM

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program's purpose is to assist qualified veterans to achieve homeownership. The program provides two primary benefits to qualified veterans. First, the VA guarantees a portion of the veteran's mortgage principal. The amount of this guaranty has varied over the years and is now 60 percent of the loan amount, up to a maximum of $27,500. Because of this guaranty, mortgage lenders are able to provide veteran homebuyers with financing at a lower rate than would be available without the program. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. A loan with no downpayment is a "100 percent loan" because the loan amount is 100 percent of the value of the property. On an annual basis from 1977 to 1986, between 58 percent and 74 percent of VA-guaranteed loans closed were 100 percent loans. (See Exhibit 1.)

Since the VA initiated its program in 1944, 12 million loans have been guaranteed under the VA home loan guaranty program. The vast majority of those loans have cost taxpayers only the administrative cost of processing the initial approval. The total mortgage amount of the 12 million guaranteed loans over the life of the program is $275.4

billion. Veterans have proven to be good credit risks. Through Fiscal Year 1986, 7.5 million guaranteed loans, totaling $102.7 billion, have been paid in full.

The budgetary mechanism for the loan guaranty program is the Loan Guaranty Revolving Fund (LGRF). The fund was established to balance the income and expenses associated with operating the program. Income for the fund is derived primarily through the sale of "vendee" loans. Vendee loans are direct loans made by the VA to finance the sale of VA-acquired properties. Expenses incurred by the LGRF are predominantly from the acquisition of foreclosed properties securing guaranteed loans.

Historically, when the LGRF was in a deficit position, the VA transferred earnings from its Direct Loan Revolving Fund (DLRF). The DLRF was created in 1950 to make direct loans to veterans who lived in housing credit short areas and could find no private lender to make a VA-guaranteed loan. In these cases, the VA acted as lender, and the interest on the direct loans provided the VA with net earnings in the DLRF.

In 1981, the VA was instructed by the Administration to make no more direct loans except to severely disabled veterans for specially adapted housing. In 1982, the Administration initiated a policy of selling federal assets, which has resulted in the sale of most of the portfolio of direct loans held by the DLRF. Consequently, the role of the DLRF as a source of income for the LGRF has been diminished.

PROGRAM MANAGEMENT

From a historical perspective, the VA home loan guaranty program has worked well, helping millions of veterans become homeowners. Congress, the VA, and the mortgage industry have worked together over the years to address concerns that have arisen in the course of delivering the home loan entitlement program to veterans. As economic conditions change and federal budget restraints increase, program management techniques need to be improved in order to preserve the objectives of the program.

Staff Functions. The home loan guaranty program suffers needless losses because of VA staffing inadequacies. Because the likelihood of increased staffing is remote, we believe that available staff resources should be maximized by streamlining the loan processing workload. Performance of some steps in processing loans could be shifted from the VA to lenders. With lenders performing more of the work, the VA staff could be utilized more efficiently by concentrating on those functions that are essential for VA staff to perform. For example, at present, VA field staff must fill out the Loan Guaranty Certificate (LGC) entirely. If lenders who already make the critical underwriting decision on the approval of the veteran would be permitted to perform the clerical process of completing the LGC, it would save VA staff valuable time that could be devoted to more critical functions.

In addition, to deal the requirements of the "Balanced Budget and Deficit Control Act of 1985" (PL 99-177), the Gramm-Rudman-Hollings Act, VA has implemented an elaborate system to track its credit utilization. Under the Loan Authorization Tracking System (LATS), it is necessary for lenders to obtain an authorization number from a VA field station prior to the closing of each loan. This time-consuming requirement is particularly frustrating because VA presently has no credit limitation for FY 1987. As a result, we recommend that VA be formally exempted from the sequestration process to eliminate this unnecessary requirement.

EXEMPTION FROM SEQUESTRATION

With the enactment of the Gramm-Rudman-Hollings Act, the parameters of the budget process, as it affects the smooth operation of the VA home loan guaranty program, are not as clear as they have been in the past.

The status of the VA home loan guaranty program should be clarified. Under Section 8 of S 9, the "Service-Disabled Veterans Improvement Act of 1987," benefits under this program would be specifically exempted from any sequestration order, or sequestration law enacted, for any fiscal year after FY 1986. We strongly support this proposal and urge that Congress enact it into law.

ADJUSTABLE RATE MORTGAGES

We urge that the VA be authorized to include ARMs in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

We believe that VA ARMs should be authorized in a manner that would allow the Administrator to conform VA ARM interest rate adjustments to the FHA ARM program. Currently, FHA is authorized to insure loans with adjustment caps of 1 percent annually and 5 percent over the life of the loan. Because FHA and VA mortgages can be placed in the same GNMA pool when they meet GNMA's pooling requirements, standardization of both VA and FHA ARMs would facilitate greater volume and liquidity in the secondary market.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. The percentage continued to rise to 62 percent of loans closed in 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets.

In 1986, 30 percent of loans closed were ARMs. The percentage of FHA loans that were ARMs increased dramatically from 1985 (the first year FHA-ARMs were permitted) to 1986. (See Exhibit 2.) Veteran borrowers should also enjoy the option.

VA FORECLOSURE CLAIM PRACTICES (NO-BIDS)

The home loan guaranty program is currently exposed to serious trouble through no fault of the VA or the mortgage lending industry. The VA-guaranteed home loan as an entitlement program is in jeopardy because Congress has changed the program, with the ultimate result that it is the veteran who will suffer. The program changes enacted by Congress in 1984 have dramatically increased the number of foreclosed guaranteed loans that result in no-bids. Application of the VA no-bid formula is scheduled to sunset October 1, 1987.

The ramifications of this Congressional action are far-reaching. Congress has shifted the risk of VA-guaranteed home loans to private lenders, leaving them with little choice but to make business decisions to deal with this shift of risk. An informal survey by the Mortgage Bankers Association of America (MBA) reveals that 50 percent of its members have already implemented changes to deal with the no-bid crisis. In some cases, lenders have stopped originating VA-guaranteed loans. Some lenders are examining closely the Certificate of Reasonable Value (CRV) and are reducing the value of the property if the CRV is higher than the lender thinks it should be for loan purposes. If the no-bid situation continues to deteriorate, some lenders may require a downpayment on VA home loans. The no-bid problem forces lenders to increase requirements that will make mortgage credit more difficult or impossible for veterans to obtain.

Under the default and foreclosure provisions of the VA home loan guaranty program, the VA has always had the option of either taking title to a foreclosed property and paying the lender the loan amount or leaving the property with the lender and paying the lender only the guaranty amount (a "no-bid"). Although the VA had the authority to exercise the "no-bid" option, prior to August 1984 it did so only in very isolated cases. However, in the "Deficit Reduction Act of 1984" (PL 98-369), Congress included a specific formula that significantly altered VA foreclosure claim practices and forced the VA to enter into more no-bids. This change represented a drastic departure from practices of the previous 35 years of the VA home loan guaranty program during which the VA, in almost 99 percent of the cases, paid the entire loan amount to the lender and acquired the property.

Impact. Foreclosures of VA-guaranteed home loans have more than doubled in the last five years, with most of the increase concentrated in geographic areas of the country that have been devastated by severe economic setbacks (Exhibit 3). With increasing frequency (from 238 cases in 1982 to 5,236 cases in 1986) (Exhibit 4), the VA has been paying the lender only the guaranty amount and leaving the foreclosed property with the lender. Especially in the geographic areas of the country that have been devastated by severe economic setbacks, the property left to the lender has depreciated in value from the time the loan was made, and the lender cannot recover the outstanding debt from the property. The no-bid situation has caused lenders to suffer severe losses. With an average net loss per loan of $16,500, industry-wide losses totalled more than $86 million in 1986.

Implementation of Legislative and Administrative Proposals. We encourage Congress and the VA to take another look at the statutory formula for determining no-bids, and to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress, with a view toward significantly lowering the number of no-bid cases in such areas. If Congress chooses to extend the present formula, that extension should not be permanent and should be for no more than an additional year to continue an assessment of the no-bid formula's impact on the VA program.

The formula the VA uses to determine whether to acquire a property or to pay the guaranty is structured so that delays in the foreclosure process almost inevitably lead to no-bids. The veteran's total indebtedness increases when a foreclosure sale is delayed, because interest continues to accrue. This additional debt can tip the scale and create a no-bid.

Even though there seems to be no definitive solution to the VA no-bid problem, nevertheless, some action is required. Changes in underwriting, appraisal, and servicing procedures will improve the quality of the VA loans. Legislation enacted in 1986 makes strides towards such improvements.

If Congress extends the VA no-bid formula, it should seriously consider changes that would lessen the harsh treatment of lenders, particularly in economically depressed areas, under the current formula.

Last fall, MBA formed a special VA Subcommittee to review the current no-bid situation and to formulate recommendations to remedy the problem. As a result of the discussions held by the special Subcommittee, MBA has adopted the following recommendations that would help alleviate the no-bid problem.

The Formula. The statutory formula contained in 38 USC 1816, which is used to calculate whether a VA foreclosed loan results in a no-bid, is as follows. If the the veteran's total indebtedness exceeds the net value of the house (appraised value reduced by VA administrative costs equal to 10.5 percent of the loan) and that excess debt is more than the guaranty amount, the VA pays the lender the guaranty amount and does not acquire the property. The veteran's total indebtedness includes the unpaid principal plus the interest that has accrued on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify. This provision should be clarified so that the amount of accrued interest due to delays in the foreclosure process does not increase the veteran's total indebtedness and in some cases turn the foreclosure into a no-bid.

Accrual of Interest. MBA urges several changes that would decrease the number of no-bids that occur solely as a result of interest accrued during the period that a loan is in default before the liquidation sale.

First, accrual of interest for purposes of the no-bid calculation should cease when the lender is ready, willing, and able to foreclose. However, such interest should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. Costs of avoidable delays in foreclosing loans would be borne by the VA in cases where the VA is responsible for postponing the expeditious completion of foreclosure.

Second, in cases where a foreclosure is delayed due to circumstances beyond the control of both the lender and the VA, such as bankruptcy, lenders should have the option to request that the VA cease accruing interest for purposes of the no-bid calculation. In return, lenders would forfeit the right to be reimbursed for such interest if the VA acquires the property. Lenders would continue to be responsible for the cost of unavoidable delays due to bankruptcies and lengthy foreclosure statutes. However, in exchange for forfeiting a portion of the interest, lenders could avoid acquiring the property.

Third, interest that accrues during a period of forbearance by a lender should not be used in the no-bid calculation, but should be reimbursed by the VA as part of the lender's claim if the VA acquires the property. The VA frequently asks lenders to forbear when a loan goes into default, but the additional interest costs accrued during the forbearance period are not reimbursed by the VA. Since the VA requests forbearance, the VA should pay for the delay if the case turns into a foreclosure. Without such a policy, lenders will be more reluctant to forbear because of the potential of significant losses.

Foreclosure Authority. MBA urges Congressional action that would enable additional authority for VA foreclosures to be delegated to lenders. This would involve granting lenders the authority to (1) process the pre-foreclosure appraisal, (2) make the calculation necessary to determine whether the VA should acquire the property or pay the guaranty, and (3) determine the appropriate bidding instructions at the foreclosure sale.

Delays in issuing timely foreclosure bidding instructions, due to inadequate VA staffing, often turn potential VA acquisitions into VA no-bids because of the additional interest accrual and hurt everyone. Interest continues to accrue during the period of the delay. This costs the mortgage banker, who must continue to advance funds to investors. It costs the VA if they acquire the property, and it adds to the debt owed by the veteran who has defaulted, where VA seeks indemnification. The delegation of foreclosure authority to lenders would reduce these delays, without increasing costs to the federal government. Existing VA staff could be dedicated to monitoring and auditing lender performance to assure integrity of the system.

Timely Payment of VA Foreclosure Claims and Guaranty Amounts. The delays that hinder the issuance of foreclosure bidding instructions by the VA also extend to paying lenders the claim or guaranty amounts. As mentioned earlier, VA has the option of taking title to the property and paying the lender the claim amount or leaving the property with the lender and paying the guaranty amount.

Regardless of the option exercised, VA's performance in paying the lender has been very poor, particularly in high foreclosure volume areas. Delays of up to six months or more cause significant and unnecessary expense to the lending industry.

Following a foreclosure, the lender must advance its own funds to pay off the investor in the GNMA pool. Lenders whose portfolios are concentrated in economically depressed markets have millions of dollars of corporate funds tied up in VA foreclosures. It is vital that VA pay lenders the claim or guaranty funds in a more timely fashion. If adequate VA staff cannot be allocated to perform this function, then the payment process should be streamlined. In 1985, the FHA implemented a streamlined system for paying claims on

FHA-insured mortgages that has reduced the number of HUD staff needed for this function and has drastically improved the speed with which lenders are paid.

MBA believes that these changes to the loan guaranty program are reasonable and will improve the home loan guaranty program. If lenders are forced to bear increasingly greater amounts of risk and losses, they will be forced, unfortunately, to discontinue originating VA loans or to make drastic changes in their underwriting procedures. The ultimate result is an increase in the cost of mortgage credit to veteran borrowers.

PROPERTY MANAGEMENT AND SALES

There are several widely espoused recommendations to improve VA's performance in selling VA-acquired properties. These recommendations include listing properties in a more timely manner in order to eliminate any lag between the time the properties become available and the time buyers become aware that these properties are on the market. In addition, there should be more outreach efforts to real estate agents to maximize exposure for VA-acquired properties. Improved communications between real estate agents and VA staff could lead to greater real estate agent knowledge about the properties. Property descriptions and details such as those used for private listings would greatly accelerate real estate agent showings of the property because of the time saved by the agent in not having to check out the property from merely an address listing. Finally, there should be further examination of the auction method for selling properties.

UNDERWRITING ON ASSUMPTIONS

We recommend that underwriting of all purchasers assuming VA loans be mandatory for all assumptions that occur in the first year of the mortgage.

We believe that this action is necessary to address abuses that have been uncovered involving assumptions that occur shortly after loan closing. However, we do not believe that it is appropriate to require underwriting in all assumption transactions. We are unaware of any documented abuses that would justify the delay and expense associated with an underwriting review of all loans.

EXTENSION OF THE FUNDING FEE

The 1 percent funding fee expires at the end of FY 1987. If the temporary funding fee is extended, it should not be made permanent. A three-year extension would give Congress the opportunity to review the home loan guaranty program and decide whether it wishes to continue the program as an entitlement.

The VA home loan guaranty program has always been an entitlement program. When Congress created the VA home loan guaranty program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be supported by user fees. The program was a recognition by a grateful nation that the men and women who had forgone civilian life to defend the vital interests of the country should be aided in achieving homeownership. The program was partial payment for services performed.

In subsequent years, the program became a commitment to young persons who entered military service to protect the vital interests of the nation in Korea, Vietnam, and elsewhere. That commitment has been reviewed from time to time, and Congress has always determined to renew it, the latest review being only a few months ago.

From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program. In 1984, Congress was faced with the fact that the economic cycle and certain changes in other VA operations precluded the VA from funding the home loan guaranty program from internal VA sources, and that appropriations would be required to continue the program.

At that time, Congress considered whether to renew its commitment to qualified veterans, especially the Vietnam veterans who are now reaching the point in their lives when they are ready to buy a home. The requested authorization and appropriations were granted; the VA was directed to administer the program in certain ways to reduce costs; and a 1 percent temporary funding fee was established, but scheduled to expire September 30, 1987.

Given the President's Budget proposals for FY 1988, Congress should reexamine whether the purpose of the VA home loan guaranty program is the same now as it has been for more than 40 years. The program was never designed to be actuarially sound, but to guarantee a mortgage loan to any qualified veteran, with no downpayment required. From the time the VA initiated its home loan guaranty program in 1944 until March 1987, 12 million loans had been guaranteed. The vast majority of those loans have cost taxpayers only the administrative costs of processing the initial approval.

INCREASE IN MAXIMUM GUARANTY

We support an increase in the maximum guaranty. The proposal included in S 9, the "Service-Disabled Veterans Improvement Act of 1987," would increase the maximum amount from $27,500 to $36,000. Such an increase would bring the relationship between the level of the guaranty amount and the ever-increasing cost of new and existing housing closer to historical ratios. The VA guaranty has not been raised since 1980.

Lenders ordinarily lend up to four times the guaranty amount, or up to $110,000, with no downpayment. In many areas, the applicable maximum allowable mortgage amount for VA does not reflect the realities of the housing marketplace. In those areas where the maximum amount is insufficient, homebuyers who might rely on the no-downpayment VA home loan program are deprived of this available financing vehicle. And, in many instances, these homebuyers have no other alternative sources of credit.

From 1974 to 1986, the median price of new single-family homes jumped from $35,900 to $92,000, an increase of 156.3 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1986 guaranty would have reached $44,847 (Exhibit 5).

During the same period, the median price of existing single-famil [illegible] increased over 150.9 percent, from $32,000 in 1974 to $80,300 in 1986. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of $43,914 in 1986 (Exhibit 5).

DOWNPAYMENT ON MANUFACTURED HOMES

There is a proposal to require a downpayment on manufactured homes. We believe that the underwriting criteria (appraisal and mortgage credit practices) required for other home loans guaranteed by the VA should be used for these manufactured homes. The foreclosure rate on manufactured homes subject to the $20,000 limit currently is dramatically higher than on other home loans. The problem appears not to be lack of equity in the property, i.e., no downpayment, but rather poor appraisal practices. Loans on these homes are based on a value established by an invoice rather than by an appraisal. Tighter underwriting would improve the quality of these loans.

REFINANCING OF VA LOANS BY TRANSFERRED VETERANS

Currently, a veteran has to meet certain residency requirements in order to refinance a high-interest rate VA-guaranteed loan with the VA. However, if the residency requirement is not met, the veteran is not precluded from keeping the high-interest rate VA loan, even if the property is being rented during the transfer period. Given that the transferred veteran is not blocked from renting the property under the original loan, it seems reasonable to permit that same veteran to refinance the loan without meeting the residency requirements.

One of the advantages of allowing refinancings is that a loan at a lower interest rate would be a less risky loan because debt service would be reduced. In addition, the veteran would have to pay the 1 percent funding fee at the time of refinancing, which would bring in increased revenues to the VA.

SALES OF LOANS WITHOUT RECOURSE

We oppose the proposal in the Administration's 1988 Budget (Appendix, page I-Y16) to have the VA sell vendee loans in all cases without recourse. The sale of vendee loans without recourse shifts the credit risk of default from the VA to the private investors, who necessarily adjust their purchase prices accordingly. The General Accounting Office concluded in a September 1986 report, LOAN ASSET SALES: OMB Policies Will Result in Program Objectives Not Being Fully Achieved, that the sale of loan assets without recourse would preclude the government from taking advantage of existing secondary credit markets and from maximizing proceeds from loan sales. It can be expected that the reduction in the sales price paid to the Government by private industry buyers of vendee loans without recourse will be greater than the deficit savings the Government might realize by transferring the risk of default. The assets would have to be sold at deep discounts, resulting in losses to the LGRF that would have to be replaced with appropriations.

It is important to note that vendee loans sold with recourse can be put into mortgage pools backing GNMA securities. If these loans are sold without recourse, these mortgages could not be placed in GNMA pools. This means the loans would be sold at outrageously low prices or not at all.

SALE OF LOAN PORTFOLIO

The vast majority of the VA's direct loans have already been sold, and it effectively no longer makes new ones. Vendee loans to finance the sale of VA-acquired properties are sold on a regular basis and as soon as practicable. The $900 million portfolio that would be sold consists of assets that have limited resale value. They include loans with very low interest rates, loans secured by property with title problems, and delinquent loans. We believe that the VA should maximize its return on these assets by prudent management. The VA should determine whether the sale price for these assets would be so low as to preclude any deficit savings.

QUOTAS FOR VENDEE LOANS

In the "Deficit Reduction Act of 1984" (PL 98-369), limitations for vendee loans were set for the VA in order to minimize the number of vendee loans to the greatest extent consistent with maintaining the effective functioning of the VA home loan guaranty program. At least 60 percent of the purchases by private buyers of property acquired by the VA are required to be financed by the VA, with the maximum set at 75 percent. The

President's FY 1988 Budget proposes to reduce this limitation on the number of vendee loans to between 40 and 60 percent of such sales. We urge that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

The intent of our recommendation is that a VA determination to make a vendee loan should not be based on an arbitrary quota, but rather on a case-by-case basis. If Congress eliminates statutory quotas, it should make it clear that the VA should use vendee loans as fully as it deems necessary to facilitate the sale of VA-acquired properties. The VA should have as much flexibility as possible in the use of vendee loans. Most vendee loans are made on foreclosed properties in economically depressed areas of the country where, because of market forces, private lenders are reluctant to provide financing without a downpayment. Because the VA field office can adjust the downpayment requirement on a vendee loan to what the market will bear, the likelihood exists that the property will be sold more quickly with a vendee loan.

FREE VA INTEREST RATE

We support legislation that would free VA loans from any interest rate controls, including the regulation of either interest rates or discount points. Under current law, the maximum interest rates on VA loans are set by the VA Administrator. These rates, however, historically have not accurately reflected the market rate for mortgages. If the maximum VA interest rate is too low, then home sellers often must pay substantial discount points to raise the yield on the mortgage to the level set by forces of supply and demand in the secondary mortgage market. Analysis suggests that a major portion of these discount points are effectively paid by the buyer in the form of a higher price for the property.

Since 1983, the interest rates on FHA-insured mortgage loans have been determined by the market. The VA home loan guaranty program is put at a disadvantage if the VA does not track the market closely. Sellers may refuse VA financing as an alternative because of the spectre of their having to pay substantial discount points if the VA sets its rate too low. Furthermore, to take advantage of the GNMA MBS program, lenders may have to place VA and FHA loans in separate pools if their interest rates are more than 1 percent apart. Although VA has been quite responsive to market forces over the past several years in making interest rate changes, a free rate would ensure the most efficient operation with the secondary market and minimize disruptions in the availability of mortgage credit to veterans.

We appreciate the opportunity to testify before this Subcommittee and would be happy to answer or provide additional information, as necessary, for inclusion in the record.

EXHIBIT 1

VA HOME LOAN GUARANTY PROGRAM ACITIVITY
PRIMARY HOME LOANS CLOSED

Total [1]

	Number	Loan Amount ($Mil)	Average Loan Amount	Average Purchase Price	Avg. Loan to Value Ratio
1977	371,610	13,260	$35,683	$36,982	96.5
1978	352,797	13,959	$39,567	$41,079	96.3
1979	345,708	15,991	$46,256	$48,555	95.3
1980	255,631	13,257	$51,860	$55,092	94.1
1981	136,027	7,543	$55,452	$58,833	94.3
1982	87,027	5,053	$58,062	$63,112	92.0
1983	227,155	14,092	$62,037	$66,723	93.0
1984	181,771	11,623	$63,998	$67,584	94.7
1985	172,773	11,579	$67,016	$70,243	95.4
1986	207,651	14,510	$69,875	$72,905	95.8

[1] Loans for refinancing not included.

100% Loans

	Number	Percent of Total Number	Loan Amount ($Mil)	Average Loan Amount
1977	259,509	69.83	8,817	$33,975
1978	244,458	69.29	9,091	$37,188
1979	234,810	67.92	10,260	$43,695
1980	169,839	66.44	8,195	$48,254
1981	89,758	65.99	4,569	$50,901
1982	50,285	57.78	2,629	$52,284
1983	137,315	60.45	7,868	$57,299
1984	118,218	65.04	7,042	$59,564
1985	123,101	71.25	7,846	$63,736
1986	153,232	73.79	10,129	$66,104

Source: Program Management Service, Loan Guaranty Department of the Veterans Administration.

Prepared by Mortgage Bankers Association of America, Economics Department, April 1987.

EXHIBIT 2

ARMs AS A PROPORTION OF LOANS CLOSED

	Conventional[1]	FHA[2]
1986	29.9%	0.8%
1985	50.5%	0.1%
1984	62.0%	—
1983	40.3%	—
1982	40.5%	—

[1] Source: Federal Home Loan Bank Board

[2] Source: Federal Housing Administration — Fiscal Year Basis

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1987.

EXHIBIT 3

TOP 10 STATES BY NUMBER OF NO-BIDS

State	FY 1985			FY 1986		
	No. of Foreclosures	No. of No-Bids	Pct.	No. of Foreclosures	No. of No-Bids	Pct.
1. Texas	4,136	258	6	7,338	1,206	16
2. California	2,775	490	18	2,617	563	22
3. Ohio	2,156	366	17	1,977	378	19
4. Colorado	1,459	146	10	1,932	363	19
5. Illinois	1,685	236	14	2,090	339	16
6. Oklahoma	734	95	13	1,426	308	22
7. Indiana	854	128	15	881	182	21
8. Pennsylvania	876	184	21	825	176	21
9. Iowa	415	91	22	417	168	40
10. Washington	1,182	130	11	1,283	165	13

Source: Veterans Administration
Prepared by Mortgage Bankers Association of America, April 1987.

EXHIBIT 4

VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.87
1982	15,427	238	1.54
1983	21,176	689	3.25
1984	23,377	1,496	6.40
1985	27,276	3,055	11.20
1986	34,642	5,236	15.00

Source: Veterans Administration
Prepared by the Mortgage Bankers Association of America, April 1987

EXHIBIT 5

ADJUSTMENT OF MAXIMUM GUARANTY

	VA Guaranty		Existing Homes		New Homes 1/		All Homes 2/	
	Amount	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974
1974	$17,500	NA	$32,000	NA	$35,900	NA	$32,725	NA
1975	$17,500	0.0	$35,300	10.3	$39,300	9.5	$36,026	10.1
1976	$17,500	0.0	$38,100	19.1	$44,200	23.1	$39,162	19.7
1977	$17,500	0.0	$42,900	34.1	$48,800	35.9	$43,981	34.4
1978	$25,000	42.9	$48,700	52.2	$55,700	55.2	$49,891	52.5
1979	$25,000	42.9	$55,700	74.1	$62,900	75.2	$56,825	73.6
1980	$27,500	57.1	$62,200	94.4	$64,600	79.9	$62,572	91.2
1981	$27,500	57.1	$66,400	107.5	$68,900	91.9	$66,782	104.1
1982	$27,500	57.1	$67,800	111.9	$69,300	93.0	$68,057	108.0
1983	$27,500	57.1	$70,300	119.7	$75,300	109.7	$71,232	117.7
1984	$27,500	57.1	$72,400	126.3	$79,900	122.6	$73,767	125.4
1985	$27,500	57.1	$75,500	135.9	$84,300	134.8	$77,052	135.5
1986	$27,500	57.1	$80,300	150.9	$92,000	156.3	$82,318	151.5

		Price Adjusted VA Guaranty			RATIO: Price Adjusted Guaranty to Actual Guaranty		
	Maximum VA Guaranty	For Existing Homes	For New 1/ Homes	For All 2/ Homes	For Existing Homes	For New 1/ Homes	For All 2/ Homes
1974	$17,500	$17,500	$17,500	$17,500	1.00	1.00	1.00
1975	$17,500	$19,305	$19,157	$19,265	1.10	1.09	1.10
1976	$17,500	$20,836	$21,546	$20,942	1.19	1.23	1.20
1977	$17,500	$23,461	$23,788	$23,519	1.34	1.36	1.34
1978	$25,000	$26,633	$27,152	$26,679	1.07	1.09	1.07
1979	$25,000	$30,461	$30,662	$30,388	1.22	1.23	1.22
1980	$27,500	$34,016	$31,490	$33,461	1.24	1.15	1.22
1981	$27,500	$36,313	$33,586	$35,712	1.32	1.22	1.30
1982	$27,500	$37,078	$33,781	$36,394	1.35	1.23	1.32
1983	$27,500	$38,445	$36,706	$38,092	1.40	1.33	1.39
1984	$27,500	$39,594	$38,948	$39,447	1.44	1.42	1.43
1985	$27,500	$41,289	$41,093	$41,204	1.50	1.49	1.50
1986	$27,500	$43,914	$44,847	$44,020	1.60	1.63	1.60

Sources: Bureau of the Census; National Association of Realtors.

1/New home sales prices and activity for 1986 estimated based on data through November 1986.

2/Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, April 1987.

T.C. Gosnell III
SCN Mortgage Corporation
P.O. Box 2846
Spartanburg, S.C.

Presentation to House Veterans' Affairs Subcommittee
on Housing and Memorial Affairs
May 29, 1987

The Veterans' Administration's Home Loan Guaranty program represents a long-standing commitment to both the value of the individual's contribution to our nation's military establishment and the ideals of home ownership. This commitment has adapted well to varying political and economic climates over the past four decades, and faces many challenges in our rapidly changing society.

We are fortunate in South Carolina to be served by dedicated and knowledgable staff members of the Veterans Administration in Columbia. As an operative originator and branch manager in the field for sixteen years, I have utilized the services and expertise available from these individuals on numerous occasions, and I have found them to be knowledgable in their areas of responsibility and concerned with the needs of veterans. I commend the management and staff for their dedication.

The difficulties which have been experienced with the VA home loan program in South Carolina relate to time delays in the processing of loan applications, particularly during the past eighteen months. These problems have stemmed from a combination of a lack of payroll authority in the VA Regional Office to add staff or temporary personnel when needed and an unprecedented demand for home loans due to greatly improved levels of interest rates. At one point during 1986, the anticipated time frame to receive a property valuation alone was 90 - 120 days. Since the property value must be received by the lender before the veteran's application can be underwritten, substantial delays resulted. Due to the staffing limitations mandated by budget considerations, the system failed to function effectively for a number of months, and has not yet fully recovered from the effects of the backlog. In some recent cases, we have experienced 45 - 60 day waiting periods to obtain property values. The concept and practical application of the Home Loan Guaranty program have been proven over many years, but as with all operative systems, it must be adequately staffed to operate in a manner which delivers its services in a timely manner. This is particularly true when the system facilitates the purchase of a home.

Fortunately, the major delays occurred in an atmosphere of declining interest rates, which benefitted most veterans. However, similar delays while rates are increasing, as they are now, could adversely affect the ability of many veterans to obtain a home loan. It seems reasonable that authorization could be granted to the regional offices to apply justifiable management practices in the hiring of temporary employees during peak activity periods. If this is not considered to be appropriate, then consideration should be given to a revision of the present system utilized to process loan applications.

Several recent developments have also affected the program. Most noticable in my experience has been the aggressive use by VA of its "no bid" policy relating to foreclosures. Under this procedure, properties sold at public auction are allowed by the VA to be deeded back to the original lender or investor, who then received direct payment from the VA for the percentage of the loan guaranteed by the agency. At that point, the lender or investor is completely liable for the property maintenance, marketing and closing expenses, and any losses incurred in the sale of the property. Depending upon the percentage of loan guaranty, the lender or investor is thereby subjected to much higher risk in a foreclosure situation than had previously been the case, when VA routinely bid for the property and handled property disposition in lieu of payment of the percentage of guaranty.

TESTIMONY OF HOME BUILDERS ASSOCIATION OF GREENVILLE-SPARTANBURG TO HOUSE VETERANS AFFAIRS SUBCOMMITTEE MAY 29, 1987

BY: J. B. Johnson, President HBA Spartanburg
Wm. W. Giles, Ex. V-Pres. HBA Greenville

VETERANS ADMINISTRATIONS HOUSING PROGRAMS

America needs a strong housing industry. The VA Programs help to provide Veterans the ability to aquire housing; without the VA program thousands of Veterans would not be able to aquire housing. In the Greenville-Spartanburg area hundreds of homes have been aquired through the VA Loan Program. In the areas of where Military Bases are located in SC; Charleston, Columbia, Sumter, Myrtle Beach, thousands of new & exisiting homes are purchased each year by Veterans. THE VA PROGRAM WORKS. THE BUILDING INDUSTRY NEED THE PROGRAM TO PROVIDE NEW HOUSING TO THE VETERANS.

Since the "New Deal" Housing has become the industry which helps AMERICANS AQUIRE WEALTH. The VA Loan programs helps the Veteran aquire an appreciating asset, THE AMERICAN HOME.

Since the begining of the VA Loan program many changes have taken place in the way the Housing Industry delievers and sells its Homes to the Public. Construction cost have inflated rapidily since the 1960 when the average home price was less than the price of new economy automobile of TODAY. Nationally, in 1972 the average new home price was $27,000; 1977 the average price was $48,800; 1982 the average price was $69,300; and in 1987 the average new home should be approximately $82,000. Through the Builder's use of modern technology and ingenuity the cost for the American Home is still attainable by Veterans.

The Veterans Administration needs to examine the VA Loan program using ingenuity and innovation to make changes in the program to keep it current with the needs of the VETERAN today.

The LOAN GUARANTY amount is currently at $27,500. Since 1980 the guaranty amount has stayed constant. The Veteran needs this amount increased. Readjust the guaranty to level to $36,000, this would allow the Veteran to purchase the same size home which he was able to aquire in 1980. Home prices have increased tremendously since the sixty's and seventy's and the VA Loan program has increased the guaranty amount before. Adjust the guaranty and provide the funding need by Veterans to buy a home.

The USER FEE'S to the Veteran need to be keep to a minimiun so that a Veteran can aquire a home. By increasing the closing cost the Veteran would probably be forced to finance these cost for thirty years in the cost of the home. The result for every $1000.00 user fee's financed, the Vetern would pay a minimiun of $3200.00 in interest cost. Increasing cost of aquisition of home is now becoming a hinderance to Ownwership. Stop user fee's. The Veteran receives no aditional benefits in the house for these user fee's.

bipartisan commitment over the years to help veterans purchase their own homes.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has consistently supported the VA Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and the home builder.

ADMINISTRATION'S FY'88 BUDGET PROPOSALS

VA User Fee Increase

Legislation was introduced for the Administration on April 8, (H.R. 1998) calling for an increase in the VA user fee from 1% to 2.5% effective June 1, 1987. We appreciate your introduction of H.Con.Res. 79 and hope Congress will reject the fee increase.

Impact of GNMA on VA

NAHB views the VA fee, as well as the user fee increase proposed for the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA), as part of a continuing effort by the Administration to restrict essential federal credit programs. We oppose these fees because they would increase the cost of mortgage credit to homebuyers. We are pleased that legislation was recently signed into law which prohibits the proposed increase in the GNMA guaranty fee from 6 to 10 basis points, an increase which would not only raise the cost to VA homebuyers but would reduce incentives for lenders to service VA loans.

The impact of the proposed changes to the GNMA program on the VA home loan guaranty program is substantial, since VA loans comprise one-third of the collateral of GNMA securities. In addition, almost all of the VA loans which are originated are securitized by GNMA.

Impact of the Fee on Veteran Mortgage Payments

The impact on the homebuying veteran of raising the VA loan guaranty fee to 2.5% would be substantial. Assuming a veteran takes out a loan for $70,000 (the average loan amount for a VA home at the end of 1986) at 9.5% for 30 years, he would have an up-front cash payment of $700 with the 1% fee. If the fee is increased to 2.5%, the up-front cash payment increases by $1,050, bringing the total to $1750. Many veterans would not be able to raise that much cash at the time they planned to purchase a home. If the loan fee is financed over 30 years, the veteran could pay an extra $3200 due to the fee increase.

The Increased Fee Will Cause Losses to the Fund

We anticipate that the increased fee will cause loan originations to decrease as veterans decline to use the program. This will offset projected revenue to the fund. The Congressional Budget Office has estimated that for each 1% increase in the VA fee, new loan originations would decrease by approximately 5%.

We are equally concerned about the impact upon the borrower's equity if the fee is financed up front. We are currently in a period of low home price inflation, which when combined with reduced equity positions can lead to a higher incidence of default and foreclosure. This effect could offset part or all of the estimated benefit of the increased fee.

Existing One Percent Fee

The current 1% funding fee, which was extended by Congress in 1984 for three years, will expire on September 30, 1987. Even with the existing 1% loan fee, the Loan Guaranty Revolving Fund may need to be supplemented by an appropriation by the Congress in FY'88.

While we support a congressional appropriation if needed to maintain solvency in the program, we recognize the critical need to maintain current revenue. Therefore we recommend that the committee retain the current 1% fee for another year to help sustain the program. We urge Congress, however, to give serious consideration to the issue of whether the program is truly an entitlement for which user fees may be inappropriate.

Negotiated Rate

Madam Chair, the Administration's legislative request for FY'88 (H.R. 1998) seeks authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the lender.

Recent NAHB policy supports the continued use of the administratively established VA rate. (Attachment B) NAHB has always endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund.

Furthermore, because of its sensitivity to market conditions the VA prevailing rate has become an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in our currently volatile interest rate environment.

Asset Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. Our concern has to do with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. The Administration's FY'88 budget proposes to sell $900 million of the Veterans Administration's $1.1 billion loan portfolio over the next three years without recourse, at a 30% discount. It is estimated that this will result in a loss of $100 million in interest income. The loss of this income stream from the properties being sold must be balanced against projected short term budgetary gains in determining actual "value" of the asset sale and long term implications and loss to the program.

LEGISLATIVE PROPOSALS

Madam Chair, I appreciate this opportunity to comment on your proposed legislative agenda. We have already expressed our views on continuation of the 1% loan origination fee and strongly urge that the loan guaranty maximum be increased since home prices have substantially increased. Recent NAHB policy supports these provisions (Attachment B).

In further response to your proposed legislative agenda we recommend that a downpayment be required for mobile homes and that transferred veterans be allowed to refinance their homes before sale even though they will no longer be owner occupants as required by law.

We also hope that the Committee will exempt the loan ceiling from sequestration provisions of the deficit reduction act as it is very important to maintain an uninterrupted flow of funds to the program. In addition we want to reiterate our interest to you in having an adjustable rate mortgage added as a financing mechanism for veteran home

Loan Guaranty Maximum

Attachment C to my testimony shows the need to increase the loan guaranty maximum. Since 1976, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from $48,000 in 1976 to $111,800 in 1986, a 133% increase. The loan guaranty maximum increased only 57% in the same amount of time -- from $17,500 to $27,500. Comparing the 1986 new home sales price of $111,800 to the 1980 figure of $76,000, the last time the loan guaranty was raised, new home prices have increased 46%.

Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from $27,500 to $36,000 as recommended in our policy is well justified. The rise in home prices of 46% would actually support an increase in the loan guaranty to over $40,000.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also support a formula to provide differentials for high cost housing areas, similar to FHA. The present system is especially unfair to areas or states with high housing costs including California, Hawaii, and Alaska. In a relatively low cost area a majority of the market may be eligible, but in a high cost area, because of the loan guaranty maximum limit, a smaller portion of the market will be served.

Mobile/Manufactured Homes/Downpayment

We are concerned about serious problems arising in the mobile/manufactured home loan area. The Government National Mortgage Association (GNMA) which guarantees principal and interest on securities backed by both FHA and VA loans has experienced rising issuer default in its mobile/manufactured home mortgage backed security program. About 65% of the loans in manufactured home securities guaranteed by GNMA are FHA and the remaining 35% are VA. These issuer defaults have left GNMA holding $900 million of mobile home mortgages out of the $3.1 billion outstanding loans in GNMA-guaranteed securities. The agency estimates these defaulted portfolios will produce losses of $38 million to $45 million over the next five years. The delinquency rate on the mobile/manufactured homes in the portfolios taken over by GNMA is 21%, including foreclosures of 10%.

The VA experience shows a 17% delinquency rate for mobile/manufactured homes in 1986. Claims from lender foreclosures represent 6% of outstanding loans in 1986. Additionally, mobile homes do not appreciate in value and do not have the same durability or energy efficiency of stick built or other manufactured homes. Because of these reasons we recommend that a downpayment be required on mobile homes to counter the high risk and losses which could occur in the Loan Guaranty Revolving Fund and the VA Home Loan Guaranty Program.

Transferred Veterans Refinancing/Assumed Loans

We recommend that veterans who have been transferred be allowed to refinance their loans before sale. Current law states that veterans must be owner occupants to refinance their homes -- a provision which excludes transferred veterans attempting to sell their homes. A new buyer does not want to assume a 12% to 14% interest rate loan which was prevalent under the program in the early 1980's, when he can obtain a much lower interest rate elsewhere.

Letting a veteran refinance the loan at the current 9.5% interest rate will be beneficial both to the veteran and the homebuyer. It will allow veterans to sell homes which have been sitting on the market, thereby preventing default and foreclosure. The new buyer will save both in the amount of upfront closing costs and in shorter processing time.

Loan Ceiling Exemption

For the first time in the history of the program, a ceiling was placed on the overall number of loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit Reduction Act. In 1986, Congress had tc increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to purchase homes for the first time. Refinancings were also at an all time high.

The loan guaranty program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays unless there is an actual default of the loan. A reduction in the number of loans will not result in deficit savings.

Adjustable Rate Mortgages

Madam Chair, you asked for our recommendations for innovations in the home loan guaranty program. Provisions for an adjustable rate mortgage would be helpful to better serve the veteran homebuyer. Recent

NAHB policy supports an adjustable rate mortgage (ARM) which allows the lender to make periodic adjustments in the effective rate of interest on a VA home loan based on a national rate index. Our policy calls for an ARM identical to FHA's adjustable rate loan which allows interest rates to escalate no more than 1% per year with a cap of 5% over the life of the loan. (Attachment D)

Adjustable rate mortgages with caps on interest rates have proven to be a valuable tool in the market place and would provide an important option to the veteran homebuying consumer. Interest rates for an adjustable rate mortgage are typically 1% to 2% points lower than a fixed rate loan. This results in a savings of as much as $100 in monthly mortgage payments. An ARM would also shield veterans from the inevitable rise in interest rates that occurs in each housing cycle. During a high interest rate environment ARMs are an even more attractive option because they carry lower initial rates. As rates fall ARMs allow the veteran borrower to enjoy rate decreases without the expense of refinancing.

Concern has been shown that veteran homebuyers are at the lower end of the affordability market and could be impacted by a rising ARM. With the new credit underwriting guidelines implemented by the VA Administration last year however, more stringent qualifying guidelines are required on VA loans.

Additionally, if the ARM is patterned after the FHA ARM there would be no negative amortization. The cap under FHA is on the interest rate (1% per year with a 5 year maximum over the life of the loan)not on the payment which is a protection for the consumer. When ARMs were first introduced, there were a number of variations that allowed for negative amortization -- that is, payments did not cover all of the interest due. Unpaid interest was added to the loan balances and borrowers could end up owing more than the home was worth. This type of loan suffered a very high foreclosure rate and was quickly abandoned.

We hope that you will support an ARM for the VA homebuyer as the Veterans Administration is the only market participant that does not offer such a program.

ADMINISTRATIVE CHANGES

Regional Residual Income Guidelines

NAHB policy urges the Veterans Administration to adopt residual income guidelines which more accurately reflect living costs in local areas when qualifying veterans for home loans. (Attachment E). Legislation passed last year called for a tightening of underwriting criteria for VA home loans. The regional limits adopted by VA are an average of high and low cost areas and as a result are having the effect of unnecessarily disqualifying creditworthy veterans. Our analysis shows that a family of four earning 150% of state median income would have difficulty in qualifying for a VA loan on a median price home in eight of the 22 states analyzed.

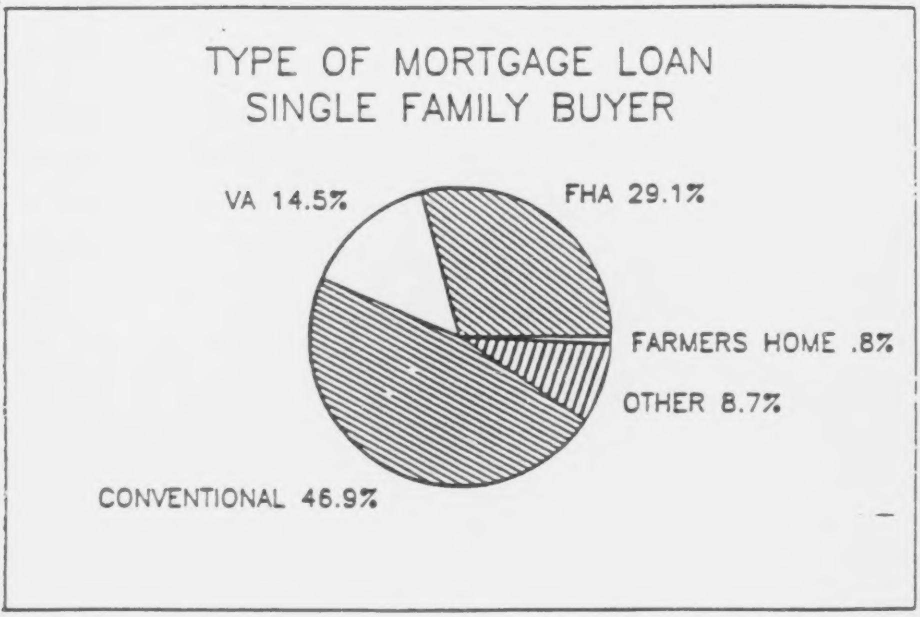
We support and encourage efforts which VA has undertaken to evaluate the impact of this regional approach and to consider the benefits for in-service personnel. By using residual income guidelines which more accurately reflect costs in specific cities and localities rather than by broad geographic regions and by including the value of benefits available to military personnel more veterans will qualify for home loans.

CONCLUSION

In closing, I would like to emphasize our opposition to the increase in the VA user fee and the establishment of a negotiated interest rate for veteran homebuyers. We support an increase in the loan guaranty maximum, exemption from mortgage ceilings and provision for an adjustable rate mortgage, so that veterans will be better assisted in obtaining home loans. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.

ATTACHMENT A



Source: National Association of Home Builders, "1986 Profile of the New Home Buyer: Single Family Homes, Condominiums."

ATTACHMENT B

Date: January 15, 1987

NAHB Resolution

VA Loan Guaranty and Interest Rate Limits

WHEREAS, the federal government provides a guaranty to lenders, which, in effect allows veterans to obtain low or no downpayment home loans; and

WHEREAS, the VA home loan guaranty maximum of $27,500 has not been increased by Congress since 1980, while the median sales price of a new home has increased by approximately 40 percent during those six years; and

WHEREAS, the VA loan guaranty needs to be raised to increase the availability of no downpayment VA loans in high cost areas; and

WHEREAS, the Gramm-Rudman-Hollings sequestration provisions have been interpreted to apply to the VA loan guaranty program; and

WHEREAS, the VA loan guaranty program is an entitlement program which should not be impacted by Gramm-Rudman-Hollings sequestration provisions; and

WHEREAS, NAHB has always supported the VA program as an entitlement for veterans, and has endorsed the administered rate process which helps ensure that veterans obtain a fair interest rate; and

WHEREAS, legislation has been introduced to both increase the VA loan guaranty maximum and exempt the VA program from sequestration under Gramm-Rudman-Hollings,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress to approve proposed legislation that would increase the ceiling on the VA loan guaranty and to exempt the VA program from the Gramm-Rudman-Hollings sequestration provision,

BE IT FURTHER RESOLVED that NAHB urge Congress to continue VA's authority to establish the maximum allowable interest rate under the loan guaranty.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT C

AVERAGE SALES PRICE OF NEW HOMES SOLD LOAN GUARANTY MAXIMUM COMPARED TO 1976

	New Single Family Homes		VA Loans	
	Average Sales Price/New Homes	% Increase Over 1976	Loan Guaranty Maximum	% Increase Over 1976
1976	$48,000	N/A	$17,500	0
1977	$54,200	12.9%	$17,500	0
1978	$62,700	30.6%	$25,000	42.9%
1979	$71,900	49.8%	$25,000	42.9%
1980	$76,600	59.6%	$27,500	57.1%
1981	$83,000	72.9%	$27,500	57.1%
1982	$83,900	74.8%	$27,500	57.1%
1983	$89,800	87.1%	$27,500	57.1%
1984	$97,600	103.3%	$27,500	57.1%
1985	$100,800	110.0%	$27,500	57.1%
1986	$111,800	132.9%	$27,500	57.1%

N/A = Not Applicable

Source: U.S. Department of Commerce, Bureau of the Census, Series C-25; Compiled by NAHB.

ATTACHMENT D

Date: January 15, 1987

NAHB Resolution

VA Adjustable-Rate Mortgage

WHEREAS, adjustable-rate mortgages typically offer lower initial rates than those available with fixed-rate loans; and

WHEREAS, this type of financing is particularly important during periods of rising interest rates in order to maintain the availability of affordable mortgage credit; and

WHEREAS, the Veteran's Administration is the only major market participant that does not offer an ARM program,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders work with Congress to establish a VA-guaranteed, adjustable-rate mortgage identical to FHA's adjustable-rate loan.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT E

Date: January 15, 1987

NAHB Resolution

VA Regional Residual Income Guidelines

WHEREAS, the Veterans Administration has recently abandoned its practice of allowing each field station to set minimum residual income guidelines for loan underwriting purposes and has instead established new residual guidelines in four broad geographic regions intended to cover the country as a whole; and

WHEREAS, this change has resulted in increases in the residual levels for some family sizes in excess of 100 percent in five jurisdictions and in excess of 50 percent in 17 jurisdictions; and

WHEREAS, the new system does not distinguish between very high cost areas and lower cost areas; and

WHEREAS, the impact of the new system has been greatest for low- to moderate income households and in-service military; and

WHEREAS, the new residual income levels do not fully account for the savings available to military personnel for such items as medical benefits, commissary and BX/PX privileges, and entertainment; and

WHEREAS, the VA has indicated that these guidelines are intended to be used in conjunction with compensating factors which may affect a borrower's ability to repay a mortgage loan; and

WHEREAS, the Veterans Administration is in the process of renewing its new residual income levels to determine whether and to what extent these levels should be adjusted to reflect the wide variations in the cost of living in different states and areas of the country, and to reflect the benefits of active military service,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Veterans Administration to explore and adopt residual income limits that more accurately reflect costs in specific cities and localities within each region,

BE IT FURTHER RESOLVED that NAHB urge the Veterans Administration to develop an estimate of the value of benefits available to military personnel and deduct this value from the minimum residual income of these borrowers, and

BE IT FURTHER RESOLVED that NAHB urge the VA to immediately advise its field offices and automatic lenders to take into account compensating factors, including local cost of living, when underwriting VA loans.

BOARD OF DIRECTORS ACTION: Approved

STATEMENT OF THE
GREENVILLE BOARD OF REALTORS®, INC.
BEFORE THE
V.A. FIELD INQUIRY

BY

ROBERT J. WILSON, III

PRESIDENT, GREENVILLE BOARD OF REALTORS®

MAY 29, 1987

INTRODUCTION

Mr. Chairman, my name is Robert J. Wilson, III. I am a REALTOR® from Greenville, S.C. and the 1987 President of the Greenville Board of REALTORS®. On behalf of the more than 1200 members of our ASSOCIATION, I want to thank you and the members of your Committee for the opportunity to present our views on veterans' housing issues, and specifically, those issues affecting the VA Home Loan Guaranty Program.

Over the past six years, the National Association has reviewed and commented upon a multitude of changes that the Administration has proposed regarding the various federal housing credit programs. We are here today to express concern over the relentless , piecemeal efforts of this Administration to dismantle these programs. It appears evident that the Administration will continue its efforts to privatize these federal programs in order to further its objective of reducing the federal government's role in housing. In keeping with the efforts of the National Association of Home Builders, the

Mortgage Bankers Association and the National Association of REALTORS®, we feel it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's housing needs.

INCREASED "USER FEE" IN VA HOME LOAN GUARANTY PROGRAM

As in the past, the Greenville Board of RELATORS® continues to oppose an increase in the VA "user fee". Since FY1986, this Administration has recommended an increase of the current 1 percent VA "user fee". This year, the President's FY1988 budget recommends that the 1 percent funding fee (which is scheduled to expire on September 30, 1987) be increased to 2.5 percent on June 1, 1987. The June date, according to the VA Administrator, Thomas K. Turnage, is necessary in order to obviate the need for an appropriation to the VA Revolving Fund.

The VA Home Loan Guaranty Program was established as a veterans' benefit, an entitlement program that was secured by service to one's country. There was no Congressional intent that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners.

The crafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with accessible mortgage credit in an attempt to compensate for any lost opportunities veterans may have suffered in the market during the period of their military duty.

Not only does the program seek to provide favorable credit, but its attempts to qualify as many veterans as may be "eligible". To be "eligible" for the home loan guaranty benefit, the veteran must meet service and discharge requirements, must qualify under flexible income and credit standards, and must occupy the home being underwriten by the VA loan.

In fulfilling the objective of easy credit accessibility, the program has become for some a benefit to which they feel entitled and to others a mortgage lender of last resort. To increase the "user fee" would certainly impact negatively on this latter group of veterans, possibly disqualifing them from the program for one of two reasons. Either the veteran would be unable to pay the additional "user fee" upfront or, if they opted to amortize the additional fee over the lifetime of the loan, those veteran borrowers in the marginal category would find that lenders would be reluctant to underwrite the resulting higher loan-to-value ratio loans.

The purpose of this program would be dramatically altered by a "user fee" increase, and "eligible" veterans desiring homeownership would likely be denied. However, there is no justtifiable concern over the continued financial stability of the VA Revolving Fund. This Fund is responsible for paying both the program's administrative costs as well as mortgage claims. The Greenville Board of REALTORS® strongly urges this Committee to closely monitor the Fund's condition. In the meantime, we recommend that the Committee review and consider alternative financial remedies so as to avoid being forced into hasty decisions.

CHANGE VA ADMINISTERED INTEREST RATE

In 1983, the NATIONAL ASSOCIATION OF REALTORS® supported a provision in the Housing and Urban-Rural Recovery Act which changed the FHA administered-rate to a one which is negotiated by the parties in the mortgage transaction. The program, as adopted by Congress, freed FHA rates from any maximum limitation and allowed all FHA-insured mortgages to bear an interest rate and points as agreed upon by the borrower and lender. The program was designed to substitute the market forces and demand for the artificial restriction on interest rates for FHA-insured loans.

Last year, this ASSOCIATION reviewed the findings of the Department of Housing and Urban Development (HUD) on the program's performance since its enactment in 1983. According to HUD, private competitive forces appear to be working effectively in the program, and homebuyers have been provided the necessary flexibility with which to structure a loan favorable to their particular needs.

Statistics following the effective interest rates and discount points on FHA loans dince deregulation indicated that points have not only stabilized but, on average, have decreased on FHA loans with the same rate as the VA maximum rate. According to HUD, the program has behaved in a rational manner with no extreme fluctuation in the interest rate or point spread, and has continued to maintain a relative advantage over conventional loans.

In keeping with our previous policy, the Greenville Board of RELATORS® supports a negotiated rate for the VA Home Loan Guaranty Program. However, if Congress considers legislation freeing the VA rate, we believe that it will be important to study the potential impact of this action, since there will no longer be a "benchmark" rate.

★ INSTITUTE DIRECT APPRAISALS IN VA HOME LOAN GUARANTY PROGRAM

The NATIONAL ASSOCIATION OF REALTORS® supports the development of a direct appraisal system within the VA Home Loan Guaranty Program. At the ASSOCIATION'S recent Mid-Winter Meetings in Denver, Colorado, our National Board of Directors approved the following action:

> "The NATIONAL ASSOCIATION OF REALTORS® supports legislation to implement a "direct appraisal" (loan processing) system for the VA Home Loan Guaranty Program".

During the 99th Congressional session, Representative Stan Parris (R-VA) introduced legislation, H.R. 4948, which would have authorized the Veterans' Administrator to establish an appraisal system, within the VA Home Loan Guaranty Program. Appraisal reports completed by VA-designated fee appraisers, would be received and reviewed by approved lenders, without VA staff involvement. The approved lender would be for determining and eventually certifying that an appraisal reflects market or reasonable value, not the staff of the VA. The approved lender would then be allowed to close the loan on the basis of its review, without further VA staff involvement.

Current law provides that the amount of a loan provided by the VA Home Loan Guaranty Program may not exceed the reasonable value of the property, as determined by the (VA) Administrator. Current law also directs the (VA) Administrator to notify the prospective homebuying veteran of the determination of the property's value.

The VA shoudl retain its ultimate authority for determining market or reasonable value. However, the VA Home Loan Guaranty Program must be granted some flexibility in fulfilling its mission to its veterans. Thisis especially true during periods of increased loan processing activity as witnessed last spring and summer. In order to better serve veterans, this proposal would allow the VA Administrator to establish a system whereby approved lenders would review appraisal reports and then, in turn, notify the veteran of the property's market or reasonable value.

As outlined in the Parris bill, fee appraisers would continue to be randomly selected by the VA. Again, however, the appraisers' reports would be provided directly to approved lenders, who would, in turn, independently review the appraisals, determine market or reasonable value, and close the loans on the basis of that review. Of course, the ASSOCIATION would insist that the VA establish specific criteria which lenders would be required to meet prior to being granted authority to process loans in this manner.

The change contemplated in the Parris' bill is similar to the appraisal process which is part of HUD's FHA Direct Endorsement Program. in 1983, our ASSOCIATION was instrumental in initiating this FHA Program which the industry and HUD agrees has been very successful. Today, more than 80 percent of FHA's loan applications are processed through direct endorsement lenders.

We support this legislation because we believe that these changes will provide more timely service to the homebuying veteran. In addition, we maintain that this change will allow VA field offices to operate more effectively under its current staffing constraints.

INCREASE VA HOME LOAN GUARANTY MAXIMUM

The Greenville Board of REALTORS® continues to support initiatives to raise the Veterans' Administration (VA) loan guaranty maximum from its present level of $27,500. The loan guaranty, also known as the veterans' entitlement, is the amount available to veterans on home loans through the VA Home Loan Guaranty Program. This entitlement is not a maximum loan limit, but rather a maximum loan guaranty. Traditionally, lenders have been assured protection through this guaranty mechanism; thus, allowing for the elimination of a downpayment requirement when a veteran purchases a home.

The lending industry has interperted the guaranty limit to mean that the maximum loan made without a downpayment may be roughly four times the guaranty maximum. In this way, lenders are making 75 percent loan-to-value (LTV) ratic loans. If a veteran wishes to secure a VA-guaranteed loan in excess of the entitlement, most mortgage lenders require the veteran to put down 25 percent of the excess, thereby keeping the LTV at 75 percent.

Since October 1, 1980, the guaranty maximum has been $27,500 or 60 percent of the loan, whichever is less. A veteran with a full entitlement of $27,500 or 60 percent and who meets the VA's underwriting requirements can usually secure a maximum loan of four times $27,500 or $110,000 with no money down.

However, as we are all aware, housing prices have risen since 1980. Consequently, the veteran homebuyer's purchasing power has decreased each year and the loan guaranty maximum has not been raised to reflect this appreciation of home prices.

According to the NATIONAL ASSOCIATION OF REALTORS® Existing Home Sales Report, in October, 1980 tne median price of an existing single-family home was $62,700. By December, 1986 the median sales price had risen to $80,600 -- an increase of 29 percent. The ASSOCIATION'S Outlook for the Economy and Real Estate forecasts a 4.0 percent rate of home price appreciation during calendar year 1987. At this rate of appreciation, the median sales price of an existing single-family home in December, 1987 is estimated to be $84,107. (SEE ATTACHMENT A).

It is estimated that from October 1980, the last time the loan guaranty maximum was increased, to the end of calendar year 1987 the change in the median price of existing single-family home represents a substantial increase of 34 percent. This analysis supports an increase of the loan guaranty from $27,500 to $36,850.

Clearly, the VA homebuyer's purchasing power has already decreased 29 percent since October, 1980 and is estimated to decrease another 5 percent by the end of 1987, if the loan guaranty maximum is not raised. The NATIONAL ASSOCIATION OF REALTORS® recommends an increase in the VA loan guaranty which will ensure that the value of the guaranty keeps pace with increases in the housing market, and therefore, strongly supports the provision contained in S.9, the Service-Disabled Veterans' Benefits Improvement Act of 1987, which seeks to increase the maximum loan guaranty to $36,000.

EXEMPT VA HOME LOAN GUARANTY PROGRAM FROM GRAMM-RUDMAN-HOLLINGS

Last year, the NATIONAL ASSOCIATION OF REALTORS® Board of Directors adopted policy to support legislation which would exempt the VA guarantee authority from the Gramm-Rudman-Hollings (G-R-H) deficit reduction law. Therefore, the ASSOCIATION supports the provision in S.9, which removes the VA Home Loan Guaranty Program from the purview of G-R-H and thus, would exempt the program from sequestration.

The ASSOCIATION agrees with the rationale, that this particular program should be granted a permanent exemption from the G-R-H's threat of sequestration for the following reasons: First, a fee is charged when a VA guarantee is issued to a veteran. This fee is channeled into the VA Revolving Fund, a special fund established to cover both the administrative cost of the program as well as any VA mortgage claims. Consequently, a sequestration cap, which would reduce the total amount of guaranties and thus, the amount of fees collected in a given fiscal year, would actually increase the deficit.

Second, an exemption would avoid the need for Congressional action to raise a sequestration cap in a given fiscal year in order to prevent the threatened interruption in the program's service to the veteran. In 1986, the Congress responded to such threats by raising the sequestration cap on this program. The ASSOCIATION has every confidence that Congress would respond in a similar manner to any future threat of interruption in the program. However, an exemption would provide needed security, stability, and predictability to the program.

Finally, the ASSOCIATION agrees that if a sequestration cap were allowed to be implemented, it would be inequitable in its application. Cutting off the issuance of commitments when a sequestration cap was reached would deny a guaranty to a veteran whose loan application was approved after the cap was reached. This could risk the veteran's purchase agreement falling through while waiting until the start of a new fiscal year and a new sequestration cap.

The NATIONAL ASSOCIATION OF REALTORS® has always considered the VA Home Loan Guaranty Program a veteran entitlement which has been secured through service to one's country. In order to provide its most optimal usage, this program should be allowed to operate in an unfettered manner, without any unnecessary interruptions.

CHANGE IN UNDERWRITING GUIDELINES FOR VA HOME LOAN GUARANTY PROGRAM

Effective October 1, 1986, the VA Home Loan Guaranty Program instituted new underwriting guidelines. Developed by VA after seeking comment from the housing/lender industry, these new guidelines reflect VA's committment to reducing the number of VA home loan foreclosures.

For the past several years, the NATIONAL ASSOCIATION OF REALTORS® has encouraged VA to tighten its underwriting standards to ensure that the veteran borrower has the ability to assume and discharge the financial obligation of a home loan. We commend VA for its efforts to strengthen its standards, where necessary, in order to reduce foreclosures and thus, the risk to the VA Revolving Fund.

The new guidelines revise VA's existing minimum income standards for veteran hoembuyers which, in the past, have been left to the discretion of the VA regional offices. In addition, the guidelines make adjustments in the types of debts which must be included in determining the veteran's monthly obligations. Finally, the standards establish a number of "benchmark" gross income-to-debt ratios which signal the loan underwriter to forward the application to a higher authority for review before approval.

Under the new system, income requirements are determined by the Department of Labor's Consumer Expenditure Survey (CES). The CES is used to establish regional standards for "minimal residual income". Since implementation of these new standards, considerable concern has been raised about the effects of the new residual income requirements. Here in the South, as well as parts of the Midwest , these new "minimal residual income" standards are making it very difficult for a disaproportionate munber of veterans in the area to qualify for VA loans. At present, we are working with VA on a "case-by-case" basis in an attempt to minimize the affects of this new standard.

VA VENDEE SALES

The Administration has also proposed increasing the minimum and maximum of inventoried properties sold without vendee financing. Current law required VA to sell at least 25 percent, but no more than 40 percent of its inventoried properties without vendee financing. The Administration's legislative proposal calls for VA to sell at least 30 percent, but no more than 60 percent without vendee financing.

Mr. Chairman, we believe that the current percentage limitations have worked well over the past two years, and that VA needs the flexibility to use vendee financing to sell its inventoried properties, particularly in areas with depressed housing markets where lenders are reluctant to provide financing. We are also aware that VA has been meeting the limitations, and has, in fact, been selling approximately 30 percent of its properties without vendee financing. At this point, we can see no reason to increase the minimum and maximum percentage limitations.

THE POTENTIAL IMPACT OF THE PROPOSED GNMA FEE CHANGE ON THE VA HOME LOAN GUARANTY PROGRAM

As you know, Mr. Chairman, the Government National Mortgage Association (GNMA) announced in December that it would be altering the allocation of the existing 50 basis points fee which is collected by issuers of the mortgage-backed securities which GNMA guarantees. Currently, loan servicers retain 44 basis points for servicing the loan, and forward the remaining 6 basis points to the GNMA Mortgage-Backed Investment Portfolio, the reserve fund which backs the GNMA guarantee. Under GNMA's proposed change, the 6 basis points which reverts to GNMA will be increased to 10 basic points, thus reducing loan servicers' fees to 40 basis points.

According to GNMA officials, this fee increase is necessary in order to bolster existing reserves and insure that GNMA could withstand any future recessions without borrowing from the Treasury. While we realize that this reallocation in the 50 basis point fee is the first in GNMA's history, the NATIONAL ASSOCIATION OF REALTORS® does not believe that such a change is necessary at this time, and that it will ultimately have a detrimental affect on future FHA and VA homebuyers.

According to our data, the GNMA reserve fund is in sound condition, with a balance of $1.35 billion as of September 30, 1986. At the end of fiscal year 1986 the total loss to the fund over its entire 17 year history was $10.6 million. Never has this fund been required to meet a total agency loss. All the losses to the GNMA program have been funded from current earnings.

The change in the current fee structure will result in a reduction of the basis points which are currently retained by the loan servicer. This 4 basis point loss amounts to a 9 percent decrease in servicing income. This increased cost to the mortgage originator is certain to be passed on to potential homebuyers in the form of higher points for for VA loans, and a combination of increased points and higher rates for FHA loans.

CONCLUSION

[illegible] madam chairwoman

In conclusion, ~~Mr~~. Chairman, the NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued unrestricted operation of the VA Home

Loan Guaranty Program, and urges you and the members of this Committee to take the lead in preserving this valuable program.

Thank you for the opportunity to present our comments, and I would be happy to answer any questions.

ATTACHMENT A

Median Sales Price of Existing Single-Family Homes*
(Not Seasonally Adjusted)

October 1980	December 1986	Percent Change
$62,700	$80,600	29%

Forecast of Home Price Appreciation During 1987**

4.0%

Estimate of Change in Existing Home Prices from 10/80 to 12/87

($62,700)(.29) + ($80,600)(.04) = $21,407

10/87	Estimate	12/87
$62,700 +	$21,407 =	$84,107

Estimate of Percent Change in Existing Home Prices from 10/80 to 12/87

34%

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* "Existing Home Sales", Economics and Research Division, NATIONAL ASSOCIATION OF REALTORS®, December, 1986.

** "Outlook for the Economy and Real Estate", Forecasting and Policy Analysis Division, NATIONAL ASSOCIATION OF REALTORS®

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS

Madam Congresswoman Patterson,

On behalf of the more than 12,000 members of the Disabled American Veterans of South Carolina, I would like to express my sincere appreciation for inviting me here today to express our views on the V.A. Home Loan Guaranty Program and the issue of homeless veterans. I commend you and members of the Subcommittee for your concern and consideration of the proposed legislative agenda regarding this Program.

As you know, since the inception of this Program--June 22, 1944--Veterans have obtained over $12 million V.A. guaranteed home loans helping them and their families to become homeowners, adding stability to our economy and expanding the tax base of every community in our Nation. However, during the early 1980's, the housing and financial markets experienced a shortage of mortgage funds and coupled with increased home prices and the highest interest rates in history, the V.A.'s Home Loan Guaranty Program was adversely affected.

As you are aware, Madam Congresswoman Patterson, to increase revenues to the V.A. Home Loan Guaranty Fund, Congress passed Public Law 98-369 that doubled the user fee from 0.5% to 1%, and I want to thank you and members of the Subcommittee for your recent actions to reject the Administration's proposed increase of the user fee to 2.5%. The D.A.V. has serious reservations about requiring a veteran to pay for the privilege of using an earned benefit entitlement. Further, it is our firm belief that any and all V.A. loan programs must include funding for sufficient personnel to implement these programs designed to assist veterans and save taxpayers dollars, or they are doomed for failure.

For example, in FY 1980, the V.A. Home Loan Guaranty Division was staffed with 2,349 personnel and closed 297,447 insured loans. During FY 86, 1,969 V.A. personnel closed 313,769 such loans. It is no wonder we receive so many complaints regarding these services with increasing foreclosures.

With the prospect of increasing the loan guaranty from $27,500 to $30,000, it seems this would be justified since V.A. statistics for FY 86 show the average home loan amount exceeded $70,000. Should the Subcommittee favorably consider this adjustment, the D.A.V. strongly recommends a similar adjustment in the V.A.'s Specially Adapted Housing Program for disabled veterans, presently $35,000, and the V.A. Housing Assistance Program, presently $6,000.

That concludes our statement, Madam Congresswoman. I again want to thank you and the members of the Subcommittee for allowing me this opportunity to express the D.A.V.'s views on these important issues.

Paul Greer
Past Department Commander
Department of South Carolina Disabled American Veterans

STATEMENT OF

E. ROY STONE, JR.
NATIONAL EXECUTIVE COMMITTEEMAN
THE AMERICAN LEGION

BEFORE THE

SUB-COMMITTEE on HOUSING and MEMORIAL AFFAIRS
COMMITTEE on VETERANS AFFAIRS
UNITED STATES HOUSE of REPRESENTATIVES

AT THE GREENVILLE TECHNICAL COLLEGE
GREENVILLE, SOUTH CAROLINA

MAY 29, 1987

Madam Chairwoman and distinguished members of the Sub-Committee:

At the request of James A. Hamilton, Sr., Department Commander, The American Legion, I am in a position to speak not only in his behalf as spokesman for South Carolina legionnaires but as a member of the National Executive Committee. Before proceeding, may I welcome you to South Carolina and to the home District of Mrs. "Liz" Patterson, our Representative and the first member that South Carolina has had on the Veterans Affairs Committee since William Jennings Bryan Dorn, who dedicatively served for many years as Vice-Chairman and Chairman of the Veterans Affairs Committee. May I also congratulate you on going out into the field, away from Washington and seeking facts that will aid you in getting a real hold on legislating for veterans.

I have not mailed your Washington office any prepared testimony because such testimony would have duplicated the Legion's stand which was given to your Committee April 22, 1987, by Emil Naschinski and Paul Egan of our Washington office. I have carefully read their report and we heartily endorse it and we recommend that you look it over again for preferred study. Several items in that report will be emphasized later.

The time span in our State on securing direct loans or the Loan Guarantee programs ranges from 4 to 6 weeks, depending on everything being in order. Cuts in V.A. personnel will no doubt widen this time span and further discourage this program. In the metropolitan areas of our State very few use the direct loan program, as most financial institutions have funds and use the Loan Guarantee program. The present interest rate ranges from 9½ to 10 percent (10 percent is now the maximum as set by the Administrator). Attached to this report is a copy from one lending institution of what the prevailing interest rates are on all types of mortgage loans. In smaller towns and in rural areas, especially in the lower part of our State, it is dependent on the direct loan program.

We address the so-called "user fee" which came into being in 1983. From inception of the G.I. Housing bill until 1983 there was no "user fee". A fee of ½ percent was authorized. Later it was raised to one percent. There is also discussion to raise the "user fee" to 2½ or 5 percent. As one lender stated, "You can kiss the G.I. home loan program goodbye. It will no longer be attractive". This brings up a question "Why the user fee"? Over eleven million veterans did not have to pay it. It represents a tax on the veteran who happens to be from a different era. Is it the Government's intent to liquidate the V.A. Loan Program? Doing so would break faith with the veteran. Promises that were made at a time when anything was good for him. He is not an economic liability, but an asset.

We are conscious that the last few years have brought about a higher foreclosure than usual. First, we must remember that we have gone through a recession since 1982. The veteran who was the last hired by a large corporation was the first to be laid off. Second, consistent sound credit and good appraisal practices will greatly reduce such foreclosures.

We are also concerned with the loan guarantee. At present, it is $27,500. We believe that in this area it should be raised to — $30,000. In other areas of the country it should be even higher. Furthermore, anyone assuming a V.A. loan, whether veteran or non-veteran, should be responsible for that loan in the event of a foreclosure; thereby, relieving the original mortgagor of any legal obligation. This will require legislation.

Time prevents our discussing the plight of the homeless veteran. It is more acute in large metropolitan areas and is more complex than one realizes. We suggest a study in depth before trying to resolve administratively or by law.

Summing up, we suggest that we go back to those basics which have successfully served twelve million veterans and have aided our Nation economically. In the past few years the housing market has improved. Return to the V.A. control of its loan portfolio which was taken away in 1983 will allow the V.A. to meet its legal obligations without having to ask for additional revenue. Do away with the "user fee"; see that personnel of the V.A. is not reduced in the Loan Program; counsel the veteran who purchases so that he does not over extend himself financially.

May I thank you for the provilege of making these few remarks.

Call:
Tim Strom
Lynne Lawson
Jane Dickerson

803 232 1000
FIRSTRIDENT
SAVINGS & LOAN CORP.

RATE BULLETIN
May 4, 1987

THIS BULLENTIN IS FOR REAL ESTATE PROFESSIONALS ONLY AND IS NOT INTENDED FOR USE BY THE GENERAL PUBLIC.

**1.00% ORIGINATION FEE ON ALL LOANS!!

CONVENTIONAL FIXED RATE LOANS

30 Years		15 Years	
Rate	Points	Rate	Points
9.50	6.00	9.00	5.50
10.00	3.00	9.50	3.00
10.50	.50	10.00	1.00
11.00	-0-	10.50	-0-

**1.00% Origination Fee
**Owner Occupied Properties Only
**Minimum Loan Amount - $ 40,000.00
**Maximum Loan Amount - $ 153,100.00 - NEW FNMA MAXIMUM LOAN AMOUNT

FHA/VA FIXED RATE LOANS

30 Years		15 Years	
Rate	Points	Rate	Points
9.00	8.00	8.50	7.00
9.50	5.00	9.00	5.00
10.00	3.00	9.50	3.00
		10.00	1.00
10.50	-0-	10.50	-0-

** 1.00% Origination Fee
**Loans under $35,000.00 - add 1.00% additional discount point

ADJUSTABLE MORTGAGE LOANS

	Rate	Points	Caps	Margin
1 Yr.	9.50	1.50	2/6	3.00
3 Yr.	n/a			

**Indexed to 1 Yr. Treasury Bill

**Owner Occupied Maximum LTV 95% to $ 153,100.00

JUMBO LOANS

30 Years		15 Years	
Rate	Points	Rate	Points
9.50	3.50	9.00	2.50
10.00	1.00	9.25	1.00

**Owner Occupied Properties Only
**Single Family Detached
**90% LTV to $ 150,000
**80% LTV to $ 200,000

**80% LTV to $ 200,000
**90% LTV to $ 150,000

STATEMENT OF

Emil W. Naschinski
Assistant Director
Economic Commission

and

Paul S. Egan
Deputy Director
Legislative Commission
The American Legion

Before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans Affairs
United States House of Representatives

April 22, 1987

Madam Chairwoman and distinguished members of the Subcommittee:

The American Legion appreciates the opportunity to share with you our views on the Veterans Administration's Loan Guaranty Program and also on the subject of homeless veterans. Attached to our written statement are three pertinent resolutions that were adopted by The American Legion this past September. We respectfully request that these resolutions be made a part of the record of this hearing.

As I am sure you know, Madam Chairwoman, the VA's home loan program was originally conceived as a part of the Servicemen's Readjustment Act of 1944. The purpose of this legislation (PL 78-346) was to aid in the economic and sociological readjustment of the millions of men and women who were then serving in the Armed Forces of the United States. This program was viewed as a viable alternative to a cash bonus as it was vastly less expensive to the Government, and because it would better serve the needs of the veteran, and the economy.

Supporters of PL 78-346 felt that veterans, because of their years of service to their country, had missed an opportunity to establish a credit rating which would be the basis of borrowing to acquire a home or business loan. In essence, it was an attempt to place the veteran on an economic par with his or her nonveteran counterpart.

Congress also saw a home loan program for veterans as an investment outlet for the vast amounts of individual savings that had accumulated during World War II. During the war years, normal investment outlets were restricted because of the shift from the production of civilian goods to war materials. As a result, large sums of money became available for investment purposes. It was expected that a normal postwar depression would occur making it important that planning be done to stimulate the redirection of accumulated liquid capital into normal peacetime avenues.

Despite the very difficult economic times that followed World War II, the VA home loan program was a stunning success. Over the years it has continued to be a very popular and successful program which has benefitted not only the veteran; but, our economy and our country as well.

The reason that we say that it has been successful is because during the 43 years that it has been in existence, the VA home loan program has allowed more than 12 million veterans and their families to become homeowners. Granted, many of those veterans could have qualified for other types of financing. On the other hand, a vast number of those 12 million veterans would not be homeowners today had it not been for the no down payment feature of VA backed mortgages.

Another successful aspect of the VA's Loan Guaranty Program has been that, with the exception of the past few years, it has remained financially self-supporting. In our opinion, there are several reasons why the program has become insolvent and has had to rely on supplemental appropriations since 1984 to meet its financial obligations.

The first of these came about as a result of the Budget Reconciliation Act of 1983 which required the VA to sell its portfolio of direct or vendee loans. Though immediate and short term savings were projected, this move proved to be highly disruptive to the stability of the Loan Guaranty Resolving Fund (LGRF), which is the fund that is used to pay off guarantees in the event of foreclosure. Without this portfolio, the VA was unable to borrow on its assets to meet guaranty obligations at precisely the same time that foreclosures were increasing dramatically. During Fiscal Years 1984 and 1985 the supplemental appropriations that were necessary to keep the program solvent amounted to $260 and $306 million respectively.

At the time, it was projected that the sale of the portfolio would generate $968 million in savings that would go to the Treasury as miscellaneous offsetting receipts. In actuality the sale of portfolio loans in 1983 only netted the Treasury $683.9 million. Continued sales in 1984 netted the Treasury another $853.7 million. Even though the savings were less than projected, the 1983 and 1984 sales of VA loans permitted savings for the Treasury amounting to $1.5 billion. Given the size of this figure, and the interest that would have accumulated, it would appear that sufficient assets could have been generated to cover LGRF shortfalls created by high foreclosure rates had the VA been permitted to maintain and properly manage its loan portfolio.

During the first part of this decade the foreclosure rate on all types of mortgages rose to the highest level since the Depression. The reasons for this were simple. Because of double digit inflation, the cost of homes and interest rates skyrocketed. While the cost of homes was increasing by some 10 to 15 percent a year, the interest rate on VA backed mortages rose to an all time high of 17.5 percent in October of 1981.

Many veterans, as well as American home buyers in general, mistakenly believed that their salaries would keep pace with inflation. Hence many Americans bought homes with prices and monthly payments that had previously been unthinkable. Then, when the 1982 recession struck, millions of Americans were suddenly faced with extended layoffs, closed factories, reduced or static earnings, or structural joblessness. Needless to say, this kind of economic turbulence led to record numbers of defaults and foreclosures on VA loans and subsequently to a drain on the LGRF.

While the economy and the housing market have improved considerably during the past 18 months, there are still a number of problems with the VA Loan Guaranty Program which must be addressed.

The first of these problems is the "user's fee". In 1983 Congress imposed a one half percent user's fee on all new VA loans made to non-disabled veterans. The proceeds of this fee were to go to the Treasury to help reduce the national deficit. A year later, the user's fee was raised to one percent and the proceeds were redirected from the Treasury to the LGRF for the purpose of defraying the administrative cost of running the program.

Every fiscal year since 1984 the Administration has proposed raising the user's fee. The American Legion, which opposed the user's fee from the beginning, has fought this proposal. To us, the user's fee is nothing more than a form of taxation: a tax which has been placed on an earned entitlement. In our opinion, those who are entitled to use this program have already paid a dear price for their eligibility.

It is also our view that the user's fee defeats the purpose of the program by creating a disincentive for its use. When the veteran purchases a home, he or she has the option of either paying the fee in full at the time of sale, or including it in the total loan amount and amortizing it over the life of the loan. In either case, lower income veterans and first time home buyers are often shut out of the housing market because they can neither pay such a fee up front, nor can they afford the increase in monthly payments that such a fee can represent.

Madam Chairwoman, the legislation that authorized the user's fee is due to expire on September 30th of this year. It is our sincere hope that you and the members of this Subcommittee will join with The American Legion in opposing its continuation.

The Administration has also recently proposed amending Subsection 1803 of Title 38, U.S.C. to allow veterans to negotiate their own interest rate with the lender. Under the current provisions of the law, the interest rate on VA guaranteed loans is set by the Administrator of the Veterans Administration. This rate, it should be noted, is the maximum interest rate lenders may charge.

Madam Chairwoman, there are some factions within the Administration who advocate getting the Federal Government out of the credit market. It would appear that one means to attain this end is to circumvent the purpose of the VA's Loan Guaranty Program and thereby make it unattractive to veterans.

It is often contended that VA loans, because of the no downpayment feature, are less secure than either conventional or FHA loans. This simply is not true. What is true, is that the foreclosure rate on VA loans has always compared very favorably with those of other types of loans.

The American Legion believes that if the Administration's proposal were to be adopted, that the no down payment feature of the VA home loan program could be seriously jeopardized. We also believe that in order for a veteran to negotiate a favorable interest rate, it would no doubt be necessary for that veteran to make a sizable down payment. If this were the case, there would be little or no incentive for the veteran to use the program. Currently 72.8 percent of all primary VA home loans are made with no down payment. Once lack of participation became an issue, it would be very easy for the Administration to justify doing away with the VA's Loan Guaranty Program.

There is one piece of legislation that The American Legion believes must be introduced by this Subcommittee concerning the VA's Loan Guaranty Program. This legislation is needed to correct an inequity that exists concerning the veterans liability in VA loan assumptions.

One attractive feature for the VA home loan is that it is assumable by all future purchasers of that property. This, of course, provides benefits for both the buyer and the seller.

Under current law, if the veteran decides to sell his or her home, it is possible for the buyer to assume the veteran's original loan. If that buyer should decide to sell the home at some point in the future, the loan can again be assumed. The problem with this is that unless the veteran secures a release from liability from the party assuming the loan, the veteran continues to be liable for the unpaid balance of the mortgage should the buyer, or some subsequent buyer, go into foreclosure.

For whatever reason, the veteran who allows the buyer to assume the loan is often unaware of his or her responsibility under the law until it is too late. Frankly, Madam Chairwoman, we are mystified as to why the VA has not made more of an effort to inform veterans of their responsibility in this regard.

The legislation that we seek from this Subcommittee should make it mandatory for the person assuming a VA loan to also assume complete responsibility for that loan in the event of foreclosure. Furthermore, we believe that it should also contain language which would provide relief for those veterans who have become, or who may become at some later date, indebted to the VA in this manner.

Finally, we would like to address the issue of homelessness among veterans. As you well know, Madam Chairwoman, many proposals have recently surfaced concerning the best way in which to attack this major problem. One proposal considered by the

Senate suggested using houses that have been acquired by the VA through foreclosure as a means of housing the homeless. While The American Legion is deeply concerned about the welfare of the Nation's homeless, we nonetheless have reservations about this proposal.

It is our belief that the lease of these homes as shelters will in many cases have a deleterious effect on relations between the VA and the local community. Residential communities have been, and are, very resistant to the placement of shelters, halfway houses, or other publicly supported residential facilities in local neighborhoods. We foresee highly publicized conflicts between the VA and local governments and communities. We hasten to add that we are not necessarily rejecting these proposals out of hand. Indeed, under certain circumstances, veterans and their families, especially those temporarily dislocated by joblessness or underemployment, could benefit from this measure.

Madam Chairwoman, that concludes our statement. Mr. Egan and I will be happy to respond to any questions you may have.

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